

Sunset Public Hearing Questions for
Tennessee Life and Health Insurance Guaranty Association
Created by Section 56-12-205, *Tennessee Code Annotated*
(Sunset termination June 2012)

1. **Provide a brief introduction to the Tennessee Life and Health Insurance Guaranty Association, including information about its purpose, statutory duties, staff and administrative attachment.**

The Tennessee Life and Health Insurance Guaranty Association (the "Association") was created in 1988, pursuant to Tenn. Code Anno. §§ 56-12-201, *et seq.* The purpose of the Association is to create a safety net of coverage for Tennessee residents who are policyholders of life or accident and health insurers that become insolvent. All life and accident and health insurers authorized to conduct business in Tennessee are required to be members of the Association by law.

The Association pays claims and provides continuing coverage to Tennessee policyholders of insolvent companies, subject to certain limitations and exceptions. The activities of the Association are funded solely by assessment on member companies. There are two classes of assessments: Class A assessments for administrative expenses and Class B assessments for providing benefits to policyholders.

In most insolvencies, the obligations of the Association are met by the Association participating in an arrangement with a qualified company to assume the business of the failed company. The Association provides the funding for the assumption reinsurance transaction. Such arrangements are subject to approval by the receivership court and regulatory authorities.

Every state has a life and health insurance guaranty association. The state guaranty associations have formed a national organization, the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA"). NOLHGA coordinates the activities of the state guaranty associations on multi state insolvencies, serves as a clearing house for information and develops information and programs to improve the operational efficiencies of the state guaranty associations.

The Association is not a state agency, but is a private, non-profit entity qualified as a tax exempt organization under IRC § 501(c)(6). The Association is governed by a nine-member board, composed of representatives of member companies. The day-to-day activities of the board are administered by Dan Elrod through a contract with his law firm, Miller & Martin PLLC. Through this arrangement, the law firm provides space for the Association, and Mr. Elrod and his assistant, Renee Birdwell, maintain the books and records of the Association, handle policyholder inquiries, work with insurance regulatory authorities, review and evaluate the various reinsurance transactions used to meet the Association's obligations and represent the Association in various processes of NOLHGA. The Association employs an independent accounting firm to conduct an

annual audit and file the Association's tax return. In addition, the Association uses the services of other vendors. to calculate assessments and upgrade software.

The Association's obligations to provide benefits, and the Class A assessment levied on member companies are divided into categories by line of business : (1) life insurance; (2) health insurance; and (3) annuities.

2. **Provide a list of current board of directors and describe how membership complies with 56-12-206, *Tennessee Code Annotated*. Are there any vacancies on the board? If so, what steps have been taken to fill the vacancies?**

The following is a list of member companies (with state of domicile) who compose the current Board of Directors:

CIGNA Healthcare (TN)
Tennessee Farmers Life Insurance Company (TN)
American General Life and Accident Insurance Company (TN)
Prudential Insurance Company of America (NJ)
Unum Life Insurance Company of America (ME)
BlueCross BlueShield of Tennessee-Chattanooga (TN)
Plateau Insurance Company (TN)
Protective Life Insurance Company (TN)
State Farm Life Insurance Company (IL)

The members are elected for staggered terms, with three terms expiring each year. The existing board makes nominations for election to fill expiring terms. The entire membership is provided notices of these nominations and other companies have an opportunity to submit additional nominations. If additional nominations are submitted, an election to the board is through proxy vote of the entire membership. If no other nominations are submitted, under the Association's Plan of Operation, the secretary of the board casts one vote in favor of the slate of nominees presented by the Board of Directors. All nominees elected are submitted to the Commissioner of Commerce and Insurance.

3. **Does membership include a member who is sixty years of age or older? A member who is a racial minority? A member who is female?**

The Board of Directors is comprised of 9 members. Board seats are held by companies, not individuals. The companies holding Board seats designate representatives to participate in Board meetings. Among the individuals who have been appointed to participate, six members are male, three are female and one is a minority. We believe that at least two (2) of the individual company representatives are over 60.

4. **What per diem or travel reimbursement do members receive? How much was paid to board members during fiscal years 2010 and 2011?**

Under Tenn. Code Ann. § 56-12-206(c), the board members may receive reimbursement for travel only in accordance with the state of Tennessee travel regulations. Members are not otherwise compensated for their services. Board members received travel reimbursements totaling \$1,259.08 for calendar year 2010 and \$0.00 for 2011 through August 31. *[Note: The Association maintains its financial records on a calendar year basis. Information provided in response to all the questions is for calendar year 2010 and calendar year 2011 through August 31, unless otherwise indicated.]*

5. **What were the association's revenues (by source) and expenditures (by object) for fiscal years 2010 and 2011?**

Calendar Year 2010 Revenues

Class A Assessments	\$ 150
Class B Assessments	\$ 2,731,081
Distributions from Estates of Insolvent Companies	\$ 1,448,933
Interest	\$ 564,177

Calendar Year 2010 Expenses

Class A (Administrative including dues to NOLHGA)	\$ 210,080
Class B (Benefits to Policyholders)	\$ 1,736,671

Calendar Year 2011 (through 8/31) Revenues

Class A Assessments	\$ 399,615
Class B Assessments	\$ 0
Distributions from Estates of Insolvent Companies	\$ 3,255,436
Interest	\$ 765,689

Calendar Year 2011 (through 8/31) Expenses

Class A (Administrative including dues to NOLHGA)	\$ 132,218
Class B (Benefits to Policyholders)	\$ 3,297,425

6. **How many times did the board meet in fiscal years 2010 and 2011, and how many members were present at each meeting?**

The Board of Directors met two (2) times in calendar year 2010 and one (1) time in calendar year 2011 as of the date this response is submitted. There follows a list of board meetings held during that period, and the number of members present at each meeting.

Calendar Year 2010

<u>Date of Board Meeting</u>	<u>No. of Board Members Present</u>
February 12, 2010	5
October 13, 2010	9

Calendar Year 2011

Date of Board Meeting

No. of Board Members Present

September 22, 2011

9

The 2011 annual meeting for the Board of Directors is scheduled for October 19, 2011.

7. **Is the board subject to Sunshine law requirements (Section 8-44-101 et seq., *Tennessee Code Annotated*) for public notice of meetings, prompt and full recording of minutes and public access to minutes? If so, what procedures does the board have for informing the public of its meetings, who keeps the official minutes of board meetings and what steps are taken to make the minutes available to the public?**

Since the Association is not a state agency, it is not subject to the Sunshine law requirements.

8. **What were the major accomplishments of the association during fiscal years 2010 and 2011? Specifically, describe any Class A and Class B assessments upon member insurers, impairments or insolvencies dealt with and liabilities (number of claims, dollar amounts) resulting from any insolvencies.**

Significant insolvency expenditures for calendar years 2010 and 2011 (through August 31) include the following:

Company Name:	Franklin American Life Insurance Company
State of Domicile:	Tennessee
Amount Paid on Behalf of Tennessee Policyholders:	\$ 120,712

Company Name:	Executive Life Insurance Company*
State of Domicile:	California
Amount Paid on Behalf of Tennessee Policyholders:	\$ 1,445,666

Company Name:	Life and Health Insurance Company of America*
State of Domicile:	Pennsylvania
Amount Paid on Behalf of Tennessee Policyholders:	\$ 239,359

Company Name:	Penn Treaty Network America *
State of Domicile:	Pennsylvania
Amount Paid on Behalf of Tennessee Policyholders:	\$ 86,025

Company Name:	Executive Life of New York *
State of Domicile:	New York
Amount Paid on Behalf of Tennessee Policyholders:	\$ 59,130
Company Name:	Lincoln Memorial Life Insurance Company*
State of Domicile:	Texas
Amount Paid on Behalf of Tennessee Policyholders:	\$ 879,076
Company Name:	Standard Life Insurance Company
State of Domicile:	Indiana
Amount Paid on Behalf of Tennessee Policyholders:	\$ 30,828
Company Name:	Shenandoah Life Insurance Company
State of Domicile:	Virginia
Amount Paid on Behalf of Tennessee Policyholders:	\$ 18,575
Company Name:	Universal Life Insurance Company/ Booker T. Washington Insurance Company*
State of Domicile:	Alabama
Amount Paid on Behalf of Tennessee Policyholders:	\$ 170,158
Company Name:	National States Life Insurance Company*
State of Domicile:	Missouri
Amount Paid on Behalf of Tennessee Policyholders:	\$ 2,435,238
Company Name:	Reliance Insurance Company
State of Domicile:	Pennsylvania
Amount Paid on Behalf of Tennessee Policyholders:	\$ 109,525
Company Name:	States General Life Insurance Company
State of Domicile:	Texas
Amount Paid on Behalf of Tennessee Policyholders:	\$ 19,838

*Additional funding for these companies may be required in subsequent years.

Each member company can be assessed for Class A administrative expenses up to \$150 per calendar year. A Class A Assessment was billed in 2011 in the amount of \$300 per member company, covering calendar years 2010 and 2011.

Class B Assessment during calendar years 2010 and 2011 are as follows:

<u>Date</u>	<u>Insolvency Company</u>	<u>Amount of Assessment</u>	<u>Account</u>
06/30/2010	Benicorp Insurance Company	\$ 2,500,000.00	Health
06/30/2010	States General Life Insurance	\$ 250,000.00	Health

9. Describe who is protected (and not protected), and to what extent, against the impairment or insolvency of an insurer. What is the state's liability for claims filed by policyholders of troubled insurance companies (both companies domiciled in Tennessee and outside Tennessee)?

The protection provided by the Tennessee Life and Health Insurance Guaranty Association Act (Tenn. Code Ann. §§ 56-12-201, et, seq.) are for the benefit of those persons (1) who are policyholders of companies authorized to conduct business in Tennessee that become insolvent, and (2) who are residents of the state of Tennessee on the date of insolvency. The coverage limits were updated in legislation enacted in 2009 and 2010 to be consistent with the current NAIC Model legislation. The current limits of benefits per individual are as follows:

- \$300,000 in life insurance death benefits;
- \$100,000 in cash surrender and net cash withdrawal for life insurance;
- \$500,000 in basic health/major medical insurance benefits;
- \$300,000 in long term care/disability insurance benefits;
- \$100,000 in miscellaneous (i.e., disease specific, hospital, indemnity) health insurance benefits;
- \$250,000 in present value of annuity benefits

There is an aggregate limit with respect to each individual of \$300,000 for all benefits, except for basic health/major medical insurance benefits in which case the aggregate limit per individual is \$500,000.

In addition, the Association has no liability for policy values that are attributable to interest rates in excess of a formula rate set forth in the statute (Tenn. Code Ann. § 204(a)(2)(C)).

The Association is unaware of any basis for state liability to policyholders of troubled insurance companies. Companies that pay Class B assessments are permitted to credit such payments against their Tennessee premium tax, although such credit must be spread over ten (10) years.

Attached as Exhibit 1 is a copy of the Summary of Tennessee Life and Health Insurance Guaranty Association Act that each member company must provide to policyholders.

- 10. Has the association submitted to the commissioner a plan of operation as required by Section 56-12-209, *Tennessee Code Annotated*? If so, specifically how does the plan meet the requirements enumerated in Section 56-12-209(c)? How are amendments submitted? Has the commissioner ever had to adopt rules in the absence of amendments as authorized in Section 56-12-209(a)(2)?**

Yes, the Association has had from its inception a Plan of Operation approved by the Commissioner. The Plan addresses all of the items in 56-12-209(c). Amendments to the Plan are provided to the Commissioner. The Association's Plan of Operation was last amended in 2007, at the annual meeting of the Board of Directors in October of that year. The Commissioner attended this meeting and was provided a copy of the proposed amendments. The Commissioner has not been required to adopt rules under 56-12-209(a)(2).

- 11. Has the board set any goals and measured its own or the association's performance compared to the goals? What performance indicators does management use to measure the effectiveness and efficiency of the board and the association? How well have the board and the association performed based on those performance indicators?**

The board routinely considers ways to improve the effectiveness and the operating efficiency of the Association. Through its membership in NOLHGA, the Association receives ideas for operational improvement and these are frequently implemented. Also, through its participation in NOLHGA, the Association is aware of how its cost effectiveness and operational efficiency compares generally with that of other states, and the Association believes that the results of such comparisons are favorable.

- 12. Has the association prepared and submitted to the Commissioner of the Department of Commerce and Insurance an annual financial report and report of activities as required by Section 56-12-214, *Tennessee Code Annotated*? What other reports does the association prepare on its operations, activities and accomplishments and who receives the reports? Please attach copies of the most recent reports.**

Attached as Exhibit 2 is a copy of the Association's 2009 and 2010 Annual Report to the Commissioner, which includes the financial reports. The Association is also subject to periodic examination by the Department of Commerce and Insurance. A copy of the most recent examination report is attached as Exhibit 3.

- 13. Does the board have any policies in place to address potential conflicts of interest by board members, association employees, or other state employees who work with the association in any capacity? If yes, please describe.**

The Board has in effect a Conflicts of Interest and Business Ethics policy wherein each Board member and administrative personnel must sign a conflicts form each year and submit it to the Administrator. A copy of the policy is attached as Exhibit 4.

- 14. Describe any items related to the association that require legislative attention and your proposed legislative changes.**

The Association is unaware of any issue that may require legislative attention.

- 15. Should the association be continued? To what extent and in what ways would the absence of the association endanger the public health, safety or welfare?**

The Association should be continued. Failure to do so would result in Tennessee being the only state in the country without a guaranty fund to provide residents with some degree of protection in the event an insurance company writing life or health insurance becomes insolvent.

- 16. Please list all association programs or activities that receive federal financial assistance and, therefore are required to comply with Title VI of the Civil Rights Act of 1964. Include the amount of federal funding received by program/activity.**

[Federal financial assistance includes:

- (1) Grants and loans of Federal funds,**
- (2) The grant or donation of Federal Property and interests in property,**
- (3) The detail of Federal personnel,**
- (4) The sale and lease of, and the permission to use (on other than a casual or transient basis), Federal property or any interest in such property without consideration or at a nominal consideration, or at a consideration which is reduced for the purpose of assisting the recipient, or in recognition of the public interest to be served by such sale or lease to the recipient, and**
- (5) Any federal agreement, arrangement, or other contract which has as one of its purposes the provision of assistance.**

28 C.F.R. Sec. 42.102(c)]

[The term recipient means any State, political subdivision of any State, or instrumentality of any State or political subdivision, any public or private agency, institution, or organization, or other entity, or any individual, in any State, to whom

Federal financial assistance is extended, directly or through another recipient, for any program, including any successor, assign, or transferee thereof, but such term does not include any ultimate beneficiary under any such program.

28 C.F.R. Sec. 42.102(f)

NONE

If the association does receive federal assistance, please answer questions 17 through 24. If the association does not receive federal assistance, proceed directly to question 23.

- 17. Does your association prepare a Title VI plan? If yes, please provide a copy of the most recent plan.**
- 18. Does your association have a Title VI coordinator? If yes, please provide the Title VI coordinator's name and phone number and a brief description of his/her duties. If not, provide the name and phone number of the person responsible for dealing with Title VI issues.**
- 19. To which state or federal agency (if any) does your association report concerning Title VI? Please describe the information your association submits to the state or federal government and/or provide a copy of the most recent report submitted.**
- 20. Describe your association's actions to ensure that association staff and clients/program participants understand the requirements of Title VI.**
- 21. Describe your association's actions to ensure it is meeting Title VI requirements. Specifically, describe any association monitoring or tracking activities related to Title VI, and how frequently these activities occur.**
- 22. Please describe the association's procedures for handling Title VI complaints. Has your association received any Title VI-related complaints during the past two years? If yes, please describe each complaint, how each complaint was investigated, and how each complaint was resolved (or, if not yet resolved, the complaint's current status).**

- 23. Please provide a breakdown of current association staff by title, ethnicity, and gender.**

The Association has no direct staff. The Association engages the law firm of Miller & Martin PLLC to provide legal and administrative services. The demographic information for Miller & Martin is as follows: Of one hundred seventy-four (174) attorneys employed by the firm, one hundred forty-one (141) are men, thirty-three (33) are women and thirteen (13) are minorities. There are one hundred sixty (160) members of the staff. Of that number twenty (20) are men, one hundred forty (140) are women and nineteen (19) are minorities.

- 24. Please list all association contracts, detailing each contractor, the services provided, the amount of the contract, and the ethnicity of the contractor/business owner.**

<u>Contractor</u>	<u>Service</u>	<u>Calendar Year 2010</u>	<u>Calendar Year (as of 08/31) 2011</u>
Miller & Martin PLLC	Administrator	\$ 83,387	\$ 47,377
Faulkner Mackie & Cochran PC	Outside Audit	\$ 19,952	\$ 18,801
Thornthwaite & Co.	Actuarial	\$ 15,125	\$ 2,675
Tax Accounting & Business Services	Data Processing	\$ 231	\$ 0

Other than the information provided in the response to 23, the ethnicity of the organizations is unknown.

Exhibit 1

NOTICE CONCERNING COVERAGE UNDER
THE TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION ACT

Residents of Tennessee who purchase life insurance, annuities or health insurance should know that the insurance companies licensed in this state to write these types of insurance are members of the Tennessee Life and Health Insurance Guaranty Association. The purpose of this association is to assure that policyholders will be protected, within limits, in the unlikely event that a member insurer becomes financially unable to meet its obligations. If this should happen, the Guaranty Association will assess its other member insurance companies for the money to pay the claims of insured persons who live in the state and, in some cases, to keep coverage in force. The valuable extra protection provided by these insurers through the Guaranty Association is not unlimited, however. And, as noted below, this protection is not a substitute for consumers' care in selecting companies that are well-managed and financially stable.

The state law that provides for this safety-net coverage is called the Tennessee Life and Health Insurance Guaranty Association Act. The following is a brief summary of this law's coverages, exclusions and limits. **This summary does not cover all provisions of the law or describe all of the conditions and limitations relating to coverage. This summary does not in any way change anyone's rights or obligations under the act or the rights or obligations of the Guaranty Association.**

COVERAGE

Generally, individuals will be protected by the Life and Health Insurance Guaranty Association if they live in this state and hold a life or health insurance contract, an annuity, or if they are insured under a group insurance contract issued by an insurer authorized to conduct business in Tennessee. Health insurance includes disability and long term care policies. The beneficiaries, payees or assignees of insured persons are protected as well, even if they live in another state.

EXCLUSIONS FROM COVERAGE

However, persons holding such policies are not protected by this Guaranty Association if:

- (1) they are eligible for protection under the laws of another state (this may occur when the insolvent insurer was incorporated in another state whose guaranty association protects insured who live outside that state);
- (2) the insurer was not authorized to do business in this state;
- (3) their policy was issued by an HMO, a fraternal benefit society, a mandatory state pooling plan, a mutual assessment company or similar plan in which the policyholder is subject to future assessments, or by an insurance exchange.

The Guaranty Association also does not provide coverage for:

- (1) any policy or portion of a policy which is not guaranteed by the insurer or for which the individual has assumed the risk, such as a variable contract sold by prospectus;
- (2) any policy of reinsurance (unless an assumption certificate was issued);
- (3) interest rate yields that exceed an average rate;
- (4) dividends;

- (5) credits given in connection with the administration of a policy by a group contractholder;
- (6) employers' plans to the extent they are self-funded (that is, not insured by an insurance company, even if an insurance company administers them);
- (7) unallocated annuity contracts (which give rights to group contractholders, not individuals).

LIMITS ON AMOUNT OF COVERAGE

The act also limits the amount the Guaranty Association is obligated to pay out. The Guaranty Association cannot pay more than what the insurance company would owe under a policy or contract. For any one insured life, the Guaranty Association guarantees payments up to a stated maximum no matter how many policies and contracts there were with the same company, even if they provided different types of coverage. These aggregate limits per life are as follows:

- \$300,000 for policies and contracts of all types, except as described in the next point
- \$500,000 for basic hospital, medical and surgical insurance and major medical insurance issued by companies that become insolvent after January 1, 2010

Within these overall limits, the Guaranty Association does not guarantee payment of benefit greater than the following:

- life insurance death benefits - \$300,000
- life insurance cash surrender value - \$100,000
- present value of annuity benefits for companies insolvent before July 1, 2009 - \$100,000
- present value of annuity benefits for companies insolvent after June 30, 2009 - \$250,000
- health insurance benefits for companies declared insolvent before January 1, 2010 - \$100,000
- health insurance benefits for companies declared insolvent on or after January 1, 2010:
 - \$100,000 for limited benefits and supplemental health coverages
 - \$300,000 for disability and long term care insurance
 - \$500,000 for basic hospital, medical and surgical insurance or major medical insurance

The Tennessee Life and Health Insurance Guaranty Association may not provide coverage for this policy. If coverage is provided, it may be subject to substantial limitations or exclusions, and require continued residency in Tennessee. You should not rely on coverage by the Tennessee Life and Health Insurance Guaranty Association in selecting an insurance company or in selecting an insurance policy.

Coverage is NOT provided for your policy or any portion of it that is not guaranteed by the insurer for which you have assumed the risk, such as a variable contract sold by prospectus.

Insurance companies or their agents are required by law to give or send you this notice. However, insurance companies and their agents are prohibited by law from using the existence of the Guaranty Association to induce you to purchase any kind of insurance policy.

Tennessee Life and Health Guaranty Association
1200 One Nashville Place
150 4th Avenue North
Nashville, TN 37219

Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

NOTICE

Residents of this state who purchase life insurance, annuities or health insurance should know that the insurance companies licensed in this state to write these types of insurance are members of the Tennessee Life and Health Insurance Guaranty Association. The purpose of this association is to assure that policyholders will be protected, within limits, in the unlikely event that a member insurer becomes financially unable to meet its obligations. If this should happen, the Guaranty Association will assess its other member insurance companies for the money to pay the claims of insured persons who live in this state and, in some cases, to keep coverage in force. The valuable extra protection provided by these insurers through the Guaranty Association is not unlimited, however, and is not available at all for some policies.

COVERAGE IS NOT PROVIDED FOR YOUR POLICY OR ANY PORTION OF IT THAT IS NOT GUARANTEED BY THE INSURER OR FOR WHICH YOU HAVE ASSUMED THE RISK, SUCH AS A VARIABLE CONTRACT SOLD BY PROSPECTUS.

Insurance companies or their agents are required by law to give or send you this notice. However, insurance companies and their agents are prohibited by law from using the existence of the Guaranty Association to induce you to purchase any kind of insurance policy.

Tennessee Life and Health Guaranty Association
1200 One Nashville Place
150 4th Avenue North
Nashville, TN 37219

Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Exhibit 2

2009 ANNUAL REPORT

OF THE

**TENNESSEE LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

TO THE

DEPARTMENT OF COMMERCE AND INSURANCE

OF THE

STATE OF TENNESSEE

Submitted May 1, 2010

TABLE OF CONTENTS

1.	Annual Report.....	Tab 1
2.	Insolvency Status Reports.....	Tab 2
3.	Minutes of Meetings.....	Tab 3
4.	Summary of Invested Assets as of December 31, 2009.....	Tab 4
5.	MorganStanley SmithBarney Summary of Return on Investments.....	Tab 5
6.	Faulkner Mackie & Cochran, P.C. Audited Statement.....	Tab 6

**TENNESSEE LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION**

1200 ONE NASHVILLE PLACE
150 4TH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2433
(615) 242-8758
FAX (615) 256-8197

May 1, 2010

ANNUAL REPORT FOR 2009

The following is a report of activities of the Tennessee Life and Health Insurance Guaranty Association (the "Association") for the year 2009.

1. **FINANCIAL REPORT AND AUDIT**

An audited statement prepared by Faulkner Mackie & Cochran, P.C. for the year 2009 is attached to the end of this report.

2. **ASSESSMENTS**

No Class A or B Assessments were levied for 2009.

3. **NATIONAL ORGANIZATION OF LIFE AND HEALTH GUARANTY ASSOCIATIONS**

The company continued its participation in the National Organization of Life and Health Guaranty Associations ("NOLHGA") in 2009. NOLHGA is an essential aspect of the handling of multi-state insolvencies. The Association's 2009 membership dues were \$53,505.00. In addition, the Association paid its proportionate share of NOLHGA expenses with regard to various insolvencies and expenses associated with the preparation of the NOLHGA assessment data survey.

4. **INSOLVENCIES**

Status reports on insolvent companies with open estates that had material activity in 2009 are attached.

5. **ANNUAL MEETING, BOARD OF DIRECTORS MEETINGS**

The Association held its annual meeting on October 21, 2009, at which time members of the Board and Directors and officers were elected, and the Administrator appointed. Minutes of the meeting are attached.

The Board of Directors also met on February 27, 2009, March 30, 2009 and December 10, 2009. Minutes of those meetings are also attached.

The Audit Committee met on April 20, 2009, September 29, 2009 and November 10, 2009. Minutes of those meetings are also attached.

The Coverage Limits Committee met on July 29, 2009 and on December 2, 2009. Minutes of those meetings are also attached.

6. **BANKING INVESTMENTS**

The Association has the following accounts with First Tennessee Bank: (1) Class A Checking account; (2) Class A Savings account; and (3) Class B Checking account. Because of the significant amount of guaranty association assessment funds, the Association has maintained its account with MorganStanley SmithBarney. The funds are invested in money market accounts or U.S. Government and federal agency bonds until funds are needed to pay claims or expenses. Attached is the Summary of Invested Assets as of December 31, 2009, prepared by the Association and a Rates of Return Summary prepared by MorganStanley SmithBarney outlining the yield on investments for the year 2009, and comparing the yield with investment indices.

7. **LEGISLATION**

Legislation was enacted during the 2009 Session of the Tennessee General Assembly that increased Association coverage limits for annuities from \$100,000 to \$250,000.

STATUS REPORT

As of December 31, 2009

Company: BENICORP INSURANCE COMPANY (BIC)
Status: In Liquidation
Insolv/Rehab Date: October 5, 2007

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$ 10,000.00	Reinsurance:
Annuity Claims:		Reinsurance:
Health Claims:	\$ 2,969,869.71	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:
Annuity A/E:
Health A/E: \$ 42,823.09

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium: \$2,696.03	Estate Dist: \$526,186.18

BENICORP INSURANCE COMPANY

COMMENTS

Benicorp Insurance Company is an Indiana based company which was ordered into liquidation on October 5, 2007. This company primarily dealt in group health insurance plans. The receiver has developed a plan under which United Healthcare offered replacement coverage. Claims paid by the guaranty associations were handled under an arrangement with a TPA, and a small number of claims were paid in 2009.

On September 12, 2008 the association received a check in the amount of \$116,751.61 which was a deposit that had previously been held by the State of Tennessee.

On October 1, 2008 the Association received a check from the estate for policy-level claims in the amount of \$294,239.80.

STATUS REPORT

As of December 31, 2009

Company: EXECUTIVE LIFE INSURANCE COMPANY (CA)
Status: In Liquidation
Insolv/Rehab Date: December 6, 1991

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:	\$ 520,000.00	12/30/91	Not called
	\$ 700,000.00	04/24/92	05/18/92
	\$ 1,150,000.00	10/28/92	12/09/92
	\$ 2,580,000.00	05/03/94	09/09/94
	\$10,320,000.00	10/27/94	12/22/94
Annuity:	\$ 420,000.00	12/30/91	Not called
	\$ 600,000.00	04/24/92	05/18/92
	\$ 2,850,000.00	10/28/92	12/09/92
	\$ 1,720,000.00	05/03/94	09/09/94
	\$ 6,880,000.00	10/27/94	12/22/94
Total:	\$26,800,000.00		

CLAIMS PAID

Life Claims:	\$ 20,304,712.91	Reinsurance:
Annuity Claims:	\$ 12,565,808.80	Reinsurance:
Health Claims:		Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 331,450.98
Annuity A/E:	\$ 228,034.02
Health A/E:	

RECEIPTS

Life Premium:		Estate Dist:	\$922,111.80
Annuity Premium:	\$ 24,949.98	Estate Dist:	\$900,822.47
Health Premium:		Estate Dist:	

EXECUTIVE LIFE INSURANCE COMPANY

COMMENTS

The company was a large issuer of life insurance and annuities. Its products were aggressively marketed and included high interest rate assumptions. When the junk bond market crashed in the early 1990s, the company encountered financial difficulty and was placed in liquidation in 1991. The Conservation Court approved a rehabilitation plan in 1995. Policyholders who elected into the Rehab Plan had coverage transferred to the new company, Aurora National Life Insurance Company. The guaranty associations funded the deficiency in assets to support this transfer of liabilities.

The Association's installments were initially estimated to be \$28 million. On June 30, 1995, the Board approved participation in a Guaranteed Issue Agreement (Article 22 Amendment) to meet additional obligations of affected policyholders. The MPC Executive Committee on June 27, 1997, approved an amendment adding Article 23 to the Enhancement Agreement which provides for premium subsidies relative to premium increase problems with Aurora IL88 contracts. The Association adopted a resolution to participate in this amendment on July 8, 1997.

Since inception of the plan, the Association has received distributions from the estate as a result of litigation recoveries.

On February 13, 2005, the California Insurance Commissioner entered into settlements in the lawsuit he filed against Aurora National Life and its parent company, New California Life Holdings. The settlement calls for Aurora and New California to pay \$80 million to the ELIC estate. All counterclaims filed against NOLHGA were dismissed.

To date, the participating guaranty associations have paid over \$2.5 billion in policyholder benefits for ELIC. The associations are projected to pay over \$1 billion of additional benefits during the balance of this century.

STATUS REPORT

As of December 31, 2009

Company: EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK
Status: In Rehabilitation
Insolv/Rehab Date: 1991

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:	\$
Annuity Claims:	\$	Reinsurance:	\$
Health Claims:	\$	Reinsurance:	\$

ADMINISTRATIVE EXPENSES

Life A/E:	\$
Annuity A/E:	\$ 104,551.00
Health A/E:	\$

RECEIPTS

Life Premium:	\$	Estate Dist:	\$
Annuity Premium:	\$	Estate Dist:	\$
Health Premium:	\$	Estate Dist:	\$

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK

COMMENTS

Executive Life Insurance Company of New York was licensed in New York and licensed to do business across the country. In the early 1990s, the company experienced financial trouble due to extensive holdings in the junk bond market. At that time, the New York Superintendent of Insurance took over ELNY and put it into rehabilitation. A Rehabilitation Plan was approved and implemented in 1992. Under the plan, the deferred annuities and traditional life blocks of business were assumptively reinsured by Metropolitan Life. The retained business consisted primarily of SPIAs, to be supported by ELNY's Investment portfolio (managed with the assistance of Investment advisor Credit Suisse/First Boston), with the annuity contracts being administered by MetLife as TPA for the rehabilitator.

There are a multitude of complications regarding Guaranty Association coverage. In some states, the Guaranty Association had not been created when ELNY was placed in rehab in 1991. Secondly, In several states, ELNY's Certificate of Authority had been suspended or revoked several years prior to its rehabilitation in 1991, and in several states, the date of suspension or revocation predates creation of the guaranty fund. Third, over one-half of ELNY's structured settlement annuities are owned by two entities. One of these entities has been domiciled in California and New York; the other in California and Connecticut. In about 30 states (including Tennessee), coverage for structured settlement annuities is determined by the principal place of business of the contract owner, not the payee. In approximately 20 states, the residence of payee determines coverage. Less than one-half of the state guaranty funds will provide any coverage under the traditional interpretations of the guaranty fund statutes. Finally, structured settlement payees are either individuals who have been injured in accidents, family members of injured persons or the survivors of injured persons.

The NOLHGA Task Force for ELNY continues to meet with representatives of the New York Liquidation Bureau and the life and property/casualty industry to develop a long-term plan to handle the policyholder obligations in the company.

STATUS REPORT

As of December 31, 2009

Company: FIRST NATIONAL LIFE INSURANCE CO OF AMERICA (MS)
Status: In Liquidation
Insolv/Rehab Date: June 29, 1999

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:	\$ 275,429.00
Annuity Claims:	\$	Reinsurance:	\$1,738,834.00
Health Claims:	\$	Reinsurance:	

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 44,527.29
Annuity A/E:	\$ 14,000.39
Health A/E:	\$ 3,051.00

RECEIPTS

Life Premium:	Estate Dist:	\$1,056,962.58
Annuity Premium:	Estate Dist:	\$ 434,633.92
Health Premium:	Estate Dist:	

FIRST NATIONAL LIFE INSURANCE COMPANY OF AMERICA

COMMENTS

First National is one of the seven Thunor Trust companies which have been placed in receivership due to misappropriation of company assets. (See the Comments section of Franklin American Life Insurance Company for background information on the Thunor Trust.) First National sold traditional life policies with annuity rider to US military personnel on a government allotment basis. The difference between the first and renewal premiums typically goes into the annuity rider in renewal years. The annuity policies were sold as riders to life policies; they allow for partial surrenders. Interest is credited on the policy anniversary on the lesser of the average balance or ending balance; as a result, withdrawals during the year receive no interest.

Bids were taken on the business of First National, Family Guaranty, Franklin Protective, Farmers and Ranchers and International Financial Services Life. As a result, Madison National Life has been selected as the winning bidder for the business of all five companies. On November 10, 1999, the court approved the assumption reinsurance agreement with Madison National; closing took place on December 9, 1999.

A distribution was made to guaranty associations in April, 2001, for Thunor Trust Companies as a result of true-up of reinsurance funding arrangements.

On September 26, 2004 the association received an estate distribution in the amount of \$161,119.17.

On July 14, 2008 the association received an estate distribution in the amount of \$941,534.10.

STATUS REPORT

As of December 31, 2009

Company: FRANKLIN AMERICAN LIFE INSURANCE COMPANY (TN)
Status: In Liquidation
Insolv/Rehab Date: October 25, 1999

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:	\$6,812,229.83
Annuity Claims:	\$	Reinsurance:	\$2,292,920.00
Health Claims:	\$	Reinsurance:	\$

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 1,000.484.97
Annuity A/E:	\$ 332.505.19
Health A/E:	\$

RECEIPTS

Life Premium:	Estate Dist:	\$ 21,214.00
Annuity Premium:	Estate Dist:	\$ 9,092.00
Health Premium:	Estate Dist:	

FRANKLIN AMERICAN LIFE INSURANCE COMPANY

COMMENTS

Franklin American is one of seven companies, domiciled in five different states, owned by the Thunor Trust, which have been placed in receivership due to misappropriation of company assets. The key figure in this large multi-state insolvency is Martin Frankel, who has a history of shady dealings in the securities business, and who mysteriously disappeared, along with most of the companies' assets. The complex, and apparently corrupt, manipulations of Mr. Frankel have been widely reported in the press since his disappearance, and state regulators are under fire for their roles in allowing his investment scams to go unchecked; however, Tennessee is the only state involved which did insist that funds held by Franklin American be returned to Tennessee when it discovered that they had been removed from the state, and because of their action, Tennessee held the only available assets in the amount of \$57 million. An agreement was reached between Tennessee and the other affected states whereby \$17.5 million of the \$57 million will be distributed among the other four states.

Franklin American is domiciled in Tennessee and licensed in 14 states.

Total policyholder liabilities for all companies amount to an estimated \$400 million, with the bulk in life insurance and annuities, and a small amount of health insurance business.

Investors Heritage assumed the outstanding policies of Franklin American under the early access agreement and assumption reinsurance agreement. Under the early access agreement, the FALIC estate provided approximately \$33 million to partially fund the assumption of the guaranty associations' approximately \$49 million obligations.

The receiver of the Thunor Trust Companies continue their efforts to recover assets. Through the end of 2008 recoveries totaled approximately \$60 million. It appears likely that the Franklin American estate will be able to make an additional distribution to guaranty associations in 2010, and that all policyholder level expenses may ultimately be covered.

STATUS REPORT

As of December 31, 2009

Company: INTERNATIONAL FINANCIAL SERVICES LIFE INS CO (MO)
Status: In Liquidation
Insolv/Rehab Date: November 30, 1999

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:	\$ 4,872.00
Annuity Claims:	\$	Reinsurance:	\$26,608.00
Health Claims:	\$	Reinsurance:	

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 10,556.31
Annuity A/E:	\$ 3,499.85
Health A/E:	\$

RECEIPTS

Life Premium:	Estate Dist:	\$ 20,484.21
Annuity Premium:	Estate Dist:	\$ 8,454.17
Health Premium:	Estate Dist:	

INTERNATIONAL FINANCIAL SERVICES LIFE INSURANCE COMPANY

COMMENTS

International Financial Services Life is one of the seven Thunor Trust companies which have been placed in receivership due to misappropriation of company assets. (See the Comments section of Franklin American Life Insurance Company for background information.) International Financial sold traditional life and pre-need funeral policies, endowment at age 65, deferred annuities and universal life policies.

Bids were taken on the business of First National, Family Guaranty, Franklin Protective, Farmers and Ranchers and International Financial Services Life. As a result, Madison National Life has been selected as the winning bidder for the business of all five companies. On November 10, 1999, the court approved the assumption reinsurance agreement with Madison National; the court entered an order liquidating International Financial and approving the assumption reinsurance agreement with Madison National on November 30. Closing took place on December 9, 1999.

A distribution was made to guaranty associations in April, 2001, for Thunor Trust Companies as a result of true-up of reinsurance funding arrangements.

On July 14, 2008 the Association received an estate distribution in the amount of \$22,630.56.

STATUS REPORT

As of December 31, 2009

Company: KENTUCKY CENTRAL LIFE INSURANCE COMPANY (KY)
Status: In Liquidation
Insolv/Rehab Date: August 18, 1994 (Affirmed 5/11/95)

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:	\$ 4,640,000.00	04/21/95	08/30/95
Annuity:	\$ 610,000.00	04/21/95	08/30/95
Health:			
Total:	\$ 5,250,000.00		

CLAIMS PAID

Life Claims:	\$ 1,889.00	Reinsurance:	\$2,494,928.00
Annuity Claims:		Reinsurance:	\$ 533,133.00
Health Claims:		Reinsurance:	

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 193,449.14
Annuity A/E:	\$ 5,682.15
Health A/E:	\$ 289.51

RECEIPTS

Life Premium:	Estate Dist:	\$2,453,028.44
Annuity Premium:	Estate Dist:	\$ 797,199.10
Health Premium:	Estate Dist:	

KENTUCKY CENTRAL LIFE INSURANCE COMPANY

COMMENTS

The court initially declared KCLIC insolvent and approved the sale of KCLIC to Jefferson-Pilot August 18, 1994. This order was ultimately appealed; on May 11, 1995, the Kentucky Supreme Court affirmed the Liquidation Court's August 18 Order of Liquidation and its June 24 Order approving the sale of KCLIC assets. Under the plan, KCLIC will sell everything it owns and cease to exist in five years. Policyholders who opt in will continue to have full coverage and receive full credit for savings; those who opt out will receive about 75 cents on the dollar. Jefferson-Pilot sent assumption certificates to opt-ins in late September, 1995.

At its meeting January 12, 1995, the Association voted to participate in the proposed plan. Closing took place May 31, 1995. The Association funded its obligations in the amount of \$3,004,000.00 by wire transfer May 24, 1995.

Post closing adjustments and recovery of estate assets resulted in distributions from the estate of the guaranty association through 2006, and the estate was closed in 2007. The Association continues to get regular inquiries from policyholders of debit or industrial policies that were not properly reflected in the KCLIC system and thus were not reinsured by Jefferson Pilot.

STATUS REPORT

As of December 31, 2009

Company: LIFE AND HEALTH INSURANCE CO OF AMERICA (PA)
Status: In Liquidation
Insolv/Rehab Date: July 2, 2004

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:	\$		
Annuity:	\$		
Health:	\$		
Total:	\$		

CLAIMS PAID

Life Claims:		Reinsurance:
Annuity Claims:		Reinsurance:
Health Claims:	\$ 1,178,493.41	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 1,686.60
Annuity A/E:	\$
Health A/E:	\$ 99,514.40 <i>(reflects refund of \$33,580.63 from NOLHGA in April 2006)</i>

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist: \$ 1,005,036.00

LIFE AND HEALTH INSURANCE COMPANY OF AMERICA

COMMENTS

Life and Health Insurance Company of American is a Pennsylvania company licensed in 29 states including Tennessee. Most of the company's business is health insurance. The company has a total of one hundred and seventy policies in force in Tennessee, including one hundred and twenty-two long term care contracts.

On August 31, 2004 NOLHGA sent information concerning the liquidation plan including a service agreement with R.N. Swanson & Associations and an early access agreement.

On June 1, 2005 NOLHGA and Philadelphia American Life Insurance Company closed a reinsurance transaction for LHICA's military allotment, universal life, single premium whole life and AD&D products - a total of approximately 700 policies, with approximately \$1.3 million in reserves.

The Association received an Early Access Distribution in the amount of \$305,549.00 in October of 2005.

The Association received an Early Access Distribution in the amount of \$221,682.00 on October 23, 2006.

At their meeting held on January 17, 2007, the MPC unanimously passed three resolutions concerning an agreement with Philadelphia American Life to assume a block of long-term care policies, a partial commutation of eight reinsurance claims, and an agreement to continue the reinsurance on some policies in the AIL block.

On April 9, 2007 the Association received an Estate Distribution in the amount of \$90,449.00.

In April of 2007 the Guaranty Associations closed on a transaction with Philadelphia American Life under which it assumed all LTC policies that were in active claims status as of the date of liquidation. The affected guaranty associations succeeded to all rights to an existing reinsurance treaty that covers some of the LTC policies

On November 28, 2007 the Pennsylvania court signed and approved the First Accounting and Petition for Distribution of the LHICA estate. This includes the proposal for the distribution of the LHICA estate; the Assumption Reinsurance Agreement with Philadelphia American Life Insurance Company; and the Acknowledgement and Agreement and Release between the liquidator, NOLHGA, and the participating guaranty associations. The closing and signing of the Assumption Reinsurance Agreement with Philadelphia American, as well as the distribution of estate assets occurred in the first quarter of 2008.

In December 2008 the Association received \$2,526.00 from NOLHGA which represents a true up payment and estate distribution of funds held by them as of September 30, 2007.

The Association continues to pay claims on a few health policies.

STATUS REPORT

As of December 31, 2009

Company: LINCOLN MEMORIAL LIFE INSURANCE CO. (TX)
Status: In Liquidation
Insolv/Rehab Date: August 11, 2008

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$ 1,499,400.00	Reinsurance:
Annuity Claims:		Reinsurance:
Health Claims:		Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E: \$ 75,008.00 (reflects \$27,279.00 refund from NOLHGA March 2009)
Annuity A/E:
Health A/E:

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist:

LINCOLN MEMORIAL LIFE INSURANCE COMPANY

COMMENTS

Lincoln Memorial Life Insurance Company of Texas and its two affiliated companies, National Prearranged Services, Inc. ("NPS") and Memorial Service Life Insurance Company were placed in liquidation by the Texas Department of Insurance on August 11, 2008. Memorial Service Life only conducted business in Texas. NPS is a funeral service company involved in the sale of pre-need contracts. NPS is not a licensed insurer, but is part of the insurance insolvency proceeding based upon the liquidator's findings that the operations of NPS were inextricably interwoven with those of the insurance company.

Lincoln Memorial was licensed in over 40 states, including Tennessee. Over 90% of the business in Lincoln Memorial was inappropriately manipulated by NPS, including the following unauthorized activities: policy loans; conversion of whole life contracts to term policies; conversion of policies to paid up policies; and the lapse of policies.

On August 28, 2008 the Board of Directors of the Association met and agreed to adopt a resolution whereby the Association agreed to participate in the Liquidation Plan and Service and Early Access Agreement by and among the Special Deputy Receiver of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc. Under the plan, the Association agrees to a run-off process and to pay claims as they arise face value of the insurance policy only. The Association has made an initial deposit of \$999,400.00 to fund expected life claims that are pending on the date of liquidation. In June 2009, the Association made a subsequent deposit of \$500,000.00

The guaranty associations in late 2008 reached agreements with North Carolina Mutual and North American Life Insurance Company pursuant to which these companies agreed to assume liability on a small block of policies they had previously administered for Lincoln Memorial. This required no funding by the guaranty associations.

On August 6, 2009 suit was filed in the U.S. District court for the Eastern District of Missouri on behalf of the Guaranty Associations. The Associations are represented by the law firm of Reily Pozner, LLP of Denver, Colorado.

STATUS REPORT

As of December 31, 2009

Company: MEDICAL SAVINGS INSURANCE COMPANY (IN)

Status: In Liquidation

Insolv/Rehab Date: February 26, 2009

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:	\$		
Annuity:	\$		
Health:	\$		
Total:	\$		

CLAIMS PAID

Life Claims:	\$	Reinsurance:
Annuity Claims:	\$	Reinsurance:
Health Claims:	\$ 2,463.24	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$
Annuity A/E:	\$
Health A/E:	\$

RECEIPTS

Life Premium:	\$	Estate Dist:
Annuity Premium:	\$	Estate Dist:
Health Premium:	\$	Estate Dist:

MEDICAL SAVINGS INSURANCE COMPANY

COMMENTS

Medical Savings Insurance Company is domiciled in Indiana whose business consist mostly of high deductible health insurance policies and a small block of term life policies. Medical Savings is licensed to conduct business in 36 states.

After liquidation the receiver made arrangements with Golden Rule to offer substitute coverage with no underwriting. The number of in-force policies was reduced dramatically, and the remaining policies have either lapsed or been cancelled. Unpaid claims at the date of insolvency are being administered by the receiver. In 2009, the Association continued to fund a few small claims paid by the receiver.

STATUS REPORT

As of December 31, 2009

Company: NATIONAL HERITAGE LIFE INSURANCE COMPANY (DE)
Status: In Liquidation
Insolv/Rehab Date: November 21, 1995

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:	\$ 275,000.00	12/22/95	01/12/96
Annuity:	\$15,000,000.00	12/22/95	01/12/96
	\$ 7,000,000.00	03/21/96	05/08/96
Total:	\$22,275,000.00		

CLAIMS PAID

Life Claims:		Reinsurance:	\$ 299,459.86
Annuity Claims:	\$11,340.00	Reinsurance:	\$21,366,687.00
Health Claims:		Reinsurance:	

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 1,660.34
Annuity A/E:	\$ 79,501.79
Health A/E:	

RECEIPTS

Life Premium:	\$28,103.00	Estate Dist:	\$ 18,880.00
Annuity Premium:	\$13,818.14	Estate Dist:	\$11,673,203.75
Health Premium:		Estate Dist:	

NATIONAL HERITAGE LIFE INSURANCE COMPANY

COMMENTS

National Heritage was placed in rehabilitation in May, 1994; a Liquidation and Injunction Order was entered November 21, 1995, with a finding of insolvency. For the two or three years prior to rehabilitation, the company was an aggressive marketer of individual annuities. Total policyholder liabilities in the company were \$450-\$500 million, and Tennessee had approximately 7% of the business. Because of the size of Tennessee's exposure, the Association was appointed to the NOLHGA Task Force for National Heritage.

Because of the unavailability of liquid assets in NHLIC, transactions were to be funded 100% by the guaranty associations. Accordingly, the Board authorized assessments totaling approximately \$22 million to cover Tennessee's obligations under the proposed assumption reinsurance plan with Metropolitan Life Insurance Company, whereby MetLife assumes all of the annuity and life business of NHLIC, with the exception of a small block of single-premium ordinary life policies. The Association funded its obligations under the agreement on June 28, 1996; closing took place July 2, 1996.

NOLHGA negotiated an assumption reinsurance agreement with Madison National Life Insurance Company for the 243 single-premium ordinary life policies. At its September 24, 1996 meeting, the Association voted to participate in the reinsurance transaction. The court approved the assumption agreement on November 12, 1996; closing was scheduled for December 13.

The Delaware Chancery Court approved a liquidation trust on December 17, 1996, which became effective January 22, 1997, which provides for the efficient liquidation of assets by professional managers. At its Annual Meeting, the Association voted to participate in this agreement. The Association has received numerous trust distributions since the trust was implemented. In addition, the Association received \$647,470.40 as a result of the final accounting of the MetLife assumption. Tennessee's portion of distributions from the state totaled about \$11.7 at the end of 2009.

The complaint includes 17 claims against 59 defendants based on RICO and state law fraud claims. Three key figures in the failure of NHLIC, Michael Blutrigh, Lyle Pfeffer and Patrick Smythe, have been given 25 year prison terms by US District Court. Shalom Weiss, financier convicted in absentia and sentenced to 845 years, was captured in Vienna, Austria in October, 2000. The MPC was shown on a recent *60 Minutes* segment regarding the criminal activity in the case. Weiss was returned to an Austrian jail in February 2002, after his bond was revoked. It was determined that the \$1.6 million Weiss posted as bail in October 2001 was actually some of the money stolen from National Heritage. Weiss was extradited to the U.S. on June 9, 2002.

The estate's claim against Bear Stearns resulted in a recovery of \$27.3 million in late 2008. Final distributions to affected guaranty associations will be made when the estate resolves certain tax issues.

STATUS REPORT

As of December 31, 2009

Company: PENN TREATY NETWORK AMERICA INSURANCE CO (PA)
Status: In Receivership
Insolv/Rehab Date: January 6, 2009

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	Reinsurance:
Annuity Claims:	Reinsurance:
Health Claims:	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 1.94
Annuity A/E:	\$ 62.28
Health A/E:	\$ 4,301.78

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist:

PENN TREATY NETWORK AMERICA INSURANCE COMPANY

COMMENTS

Due to the company's corrective action plan still being under consideration by the Pennsylvania Insurance Department, Penn Treaty American Corp. has voluntarily suspended new sales of long-term nursing facility and home health care insurance products in all states except New York. The company had anticipated the plan to be completed by September 1, 2001. The corrective action plan is for Penn Treaty Network America Insurance Company, a subsidiary of Penn Treaty, and is intended to generate additional statutory capital for its subsidiary operations.

Penn Treaty subsidiaries will not accept new applications for the referenced products until December 15, 2001 unless they receive earlier regulatory approval. The suspension of sales does not affect policies pending through September 10, 2001 or policy renewals, and does not include the disability and Medicare supplement products, which are sold to other companies.

On January 6, 2009, Penn Treaty was once again placed in rehabilitation by the Pennsylvania Insurance Commissioner.

On October 2, 2009 petitions for liquidation were filed, but an actual date for liquidation remains uncertain. In the meantime, the receiver is paying all claims in full.

STATUS REPORT

As of December 31, 2009

Company: SHELBY CASUALTY INSURANCE COMPANY (TX)

Status: In Liquidation

Insolv/Rehab Date: August 1, 2006

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:
Annuity Claims:	\$	Reinsurance:
Health Claims:	\$ 17,005.95	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$
Annuity A/E:	\$
Health A/E:	\$

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist: \$787.00

SHELBY CASUALTY INSURANCE COMPANY

COMMENTS

Shelby Casualty Insurance Company is a part of the Vesta Insurance Companies which were declared insolvent as of August 1, 2006. Tennessee had one disability claimant on which claims were made. A small distribution from the estate was received in 2009.

STATUS REPORT

As of December 31, 2009

Company: SHENANDOAH LIFE INSURANCE COMPANY (VA)
Status: In Rehabilitation
Insolv/Rehab Date: February 12, 2009

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:
Annuity Claims:	\$	Reinsurance:
Health Claims:	\$	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$	751.80
Annuity A/E:	\$	823.40
Health A/E:	\$	214.80

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist: \$

SHENANDOAH LIFE INSURANCE COMPANY (VA)

COMMENTS

Shenandoah Life Insurance Company is a Virginia based mutual insurance company that primarily writes life, annuity and accident and health business in small communities. The company was placed into rehabilitation on February 12, 2009, with the State Corporation Commission of the Commonwealth of Virginia appointed as receiver.

STATUS REPORT

As of December 31, 2009

Company: STANDARD LIFE INSURANCE CO OF INDIANA (IN)
Status: In Rehabilitation
Insolv/Rehab Date: December 18, 2008

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:
Annuity Claims:	\$	Reinsurance:
Health Claims:	\$	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$
Annuity A/E:	\$ 11,204.00
Health A/E:	\$

RECEIPTS

Life Premium:	Estate Dist:	
Annuity Premium:	Estate Dist:	
Health Premium:	Estate Dist:	\$122.00

STANDARD LIFE INSURANCE CO OF INDIANA (IN)

COMMENTS

Standard Life Insurance Company of Indiana was ordered into Rehabilitation by the Indiana Department of Insurance on December 18, 2008. The company mainly writes annuity policies. The rehabilitator is paying claims when due, although there is a moratorium on cash surrenders and loans. The rehabilitator is waiting on a plan of receivership that will likely include an effort to find a company to assume the existing policies. The extent of guaranty association funding that will be required is not yet known.

STATUS REPORT

As of December 31, 2009

Company: UNIVERSAL LIFE INSURANCE COMPANY
BOOKER T. WASHINGTON INSURANCE COMPANY (AL)

Status: In Rehabilitation

Insolv/Rehab Date: April 24, 2009

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:	\$
Annuity Claims:	\$	Reinsurance:	\$
Health Claims:	\$	Reinsurance:	

ADMINISTRATIVE EXPENSES

Life A/E:	\$	947.52
Annuity A/E:	\$	
Health A/E:	\$	556.48

RECEIPTS

Life Premium:	\$	Estate Dist:	\$
Annuity Premium:	\$	Estate Dist:	\$
Health Premium:	\$	Estate Dist:	

PROOF OF CLAIM

Last Date Filed:

UNIVERSAL LIFE INSURANCE COMPANY
BOOKER T. WASHINGTON INSURANCE COMPANY (AL)

COMMENTS

Universal Life Insurance Company/Booker T. Washington Insurance Company are affiliated companies domiciled in Alabama. Booker T. Washington was placed in rehabilitation in February 2006 and Universal Life was placed in rehabilitation in April 2009. Both companies sold small life insurance policies, often in conjunction with pre-need funeral arrangements, along with industrial health and disability policies. One block of life insurance business is the subject of a co-insurance arrangement with North Carolina Mutual, and the rehabilitator is attempting to convert this to an assumption reinsurance arrangement. It is anticipated that the pending rehabilitation proceedings will convert to liquidations. Between the two companies, there are approximately 5,000 (out of a total of 45,000) in Tennessee. The Association is a member of the NOLHGA Tax Force for Universal Life Insurance Company/Booker T. Washington.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE ANNUAL MEETING OF MEMBERS

October 21, 2009

The Annual Meeting of the Members of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:15 A.M., C.D.T., on October 21, 2009, at the offices of the Association, 1200 One Nashville Place, 150 Fourth Avenue North, Nashville, Tennessee.

1. ATTENDANCE

Present:

- American General Life & Accident Insurance Company
 - Sharon Roberson
- Unum Group
 - Elizabeth H. Simon
- Plateau Insurance Company
 - Mike Graham
- Connecticut General Life Insurance Company
 - John Sorrow
- Protective Life Insurance Company
 - Barrie Balzli Stokes
- Tennessee Farmers Life Insurance Company
 - Edward K. Lancaster
- Prudential Insurance Company of America
 - Michael A Jennings
- Department of Commerce and Insurance
 - Trey Hancock
- Department of Commerce and Insurance
 - Horace Gaddes
- Association Administrator
 - Dan Elrod
- Assistant to the Administrator
 - Renee Birdwell
- Assistant to the Administrator
 - Gwyn Etheridge

2. NOTICE OF MEETING

Notice of meeting was properly given.

3. PRESIDING OFFICER AND ADMINISTRATOR

Ms. Roberson presided at the meeting and Ms. Birdwell kept the minutes. Ms. Roberson welcomed to the meeting Mr. Trey Hancock, Lead Life Analysis of the Department of Commerce and Insurance and Mr. Horace Gaddess, Chief Examiner of the Department of Commerce and Insurance.

4. ELECTION OF OFFICERS

Ms. Roberson stated that the appropriate notice setting forth nominees for election of directors had been sent to all companies. The nominees previously proposed by the Nominating Committee are as follows:

State Farm Life Insurance Company
Connecticut General Life Insurance Company
Plateau Insurance Company

It was noted that appropriate representatives of all the nominees have agreed to serve, and that no other nominations had been received from the membership. Under the Plan of Operation, the Secretary/Treasurer is directed to cast one vote each for the nominees, if no other nominations are made by the member companies. Mr. Graham cast one vote each in favor of the nominees, and the nominees were declared elected.

5. ADJOURNMENT

There being no further business, the meeting adjourned at 10:18 A.M.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS

February 27, 2009

A Meeting of the Board of Directors of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 9:05 A.M., C.S.T., on February 27, 2009 via teleconference.

1. ATTENDANCE

Present: American General Life & Accident Insurance Company
- Sharon Roberson
- Randy Foster
Unum Group
- Elizabeth H. Simon
Plateau Insurance Company
- Dick Williams
State Farm Insurance Company
- Ron Nichols
BlueCross BlueShield of Tennessee
- J. Barclay Phillips
Connecticut General Life Insurance Company
- John Sorrow
Protective Life Insurance Company
- Barrie Balzli Stokes
Tennessee Farmers Life Insurance Company
- Edward K. Lancaster
Prudential Insurance Company of America
- Michael A. Jennings
Association Administrator
- Dan Elrod
Assistant to the Administrator
- Renee Birdwell

2. NOTICE OF MEETING

Notice of meeting was properly given.

3. PRESIDING OFFICER AND ADMINISTRATOR

Mr. Elrod presided over the meeting.

4. 2009 LEGISLATION

Mr. Elrod advised the Board that a proposed bill has been introduced to the Tennessee legislature that would increase the coverage limit for annuities from \$100,000.00 to \$250,000.00. At the conclusion of discussion, the Board unanimously adopted a motion expressing its non-opposition to the legislation, provided that an attempt to pass the bill does not endanger the premium tax offset. Mr. Elrod was directed to communicate this position to the sponsor and to keep the Board advised of further developments.

5. ADJOURNMENT

There being no further business before the Board, the meeting adjourned at 9:36 a.m.

cc: Board of Directors

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS

March 30, 2009

A Meeting of the Board of Directors of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:00 A.M., C.D.T., on March 30, 2009 via teleconference.

1. ATTENDANCE

Present: American General Life & Accident Insurance Company
- Sharon Roberson
Unum Group
- Elizabeth H. Simon
Plateau Insurance Company
- Dick Williams
State Farm Insurance Company
- Ron Nichols
BlueCross BlueShield of Tennessee
- J. Barclay Phillips
Prudential Insurance Company of America
- Michael A. Jennings
Association Administrator
- Dan Elrod
Assistant to the Administrator
- Renee Birdwell

2. NOTICE OF MEETING

Notice of meeting was properly given.

3. PRESIDING OFFICER AND ADMINISTRATOR

Mr. Elrod presided over the meeting.

4. 2009 LEGISLATION

Mr. Elrod reminded the Board of their discussion at their meeting which was held on February 27, 2009 regarding proposed legislation that has been introduced to increase coverage limits for annuities from \$100,000.00 to \$250,000.00.

Mr. Elrod advised the Board that he had been approached by the Department of Insurance asking if the Board had any objection to adopting the NAIC Model Act that would raise the limits on all lines of business.

After discussion, the Board decided to form a Committee to review the Model Act and the effect it would have on the Association, member companies and Tennessee policyholders. The Board plans to meet again to discuss the Committee's conclusions.

5. ADJOURNMENT

There being no further business before the Board, the meeting adjourned at 10:30 a.m.

cc: Board of Directors

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE ANNUAL MEETING OF THE BOARD OF DIRECTORS

October 21, 2009

The Annual Meeting of the Board of Directors of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:20 A.M., C.D.T., on October 21, 2009, at the offices of the Association, 1200 One Nashville Place, 150 Fourth Avenue North, Nashville, Tennessee.

1. ATTENDANCE

Present: American General Life & Accident Insurance Company
- Sharon Roberson
Unum Group
- Elizabeth H. Simon
Plateau Insurance Company
- Mike Graham
Connecticut General Life Insurance Company
- John Sorrow
Protective Life Insurance Company
- Barrie Balzli Stokes
Tennessee Farmers Life Insurance Company
- Edward K. Lancaster
Prudential Insurance Company of America
- Michael A. Jennings
Department of Commerce and Insurance
- Trey Hancock
Department of Commerce and Insurance
- Horace Gaddes
Association Administrator
- Dan Elrod
Assistant to the Administrator
- Renee Birdwell
Assistant to the Administrator
- Gwyn Etheridge

2. NOTICE OF MEETING

Notice of meeting was properly given.

3. PRESIDING OFFICER AND ADMINISTRATOR

Ms. Roberson called the meeting to order, and asked Mr. Elrod and Ms. Birdwell to keep notes for purposes of drafting minutes. Mr. Trey Hancock, Lead Life Analysis and Mr. Horace Gaddes, Chief Examiner of the Department of Commerce and Insurance were also present for the meeting of the Board of Directors.

4. APPROVAL OF MINUTES

Ms. Roberson directed the Board's attention to the minutes of the meetings held on October 14, 2008, February 27, 2009, and March 30, 2009. It was noted that copies of the minutes had previously been distributed to the Board. There being no changes or corrections to the minutes, upon motion made and seconded, the Board unanimously voted to approve the minutes of the meeting of the Members on October 14, 2008, and the meetings of the Board of Directors on October 14, 2008, February 27, 2009, and March 30, 2009.

5. REPORT BY ADMINISTRATOR

Ms. Roberson asked Mr. Elrod for his report. Mr. Elrod then directed the Board's attention to the Annual Meeting binder containing information on the following matters:

Financial Reports

- a. 2008 Audit – Mr. Elrod stated that the annual audit of the records of the Association had been conducted by Faulkner Mackie & Cochran, P.C. Mr. Elrod noted that the Association's audit was clean and without issue.

Mr. Elrod directed the Board's attention to page two of the Audit report and noted that, at the Board's request, the auditors reflected a more detailed description of the Administrative Disbursements than in years past.

- b. 2008 Annual Report – Mr. Elrod reviewed with the Board the 2008 Annual Report which was filed with the Department of Commerce and Insurance in May of this year.

- c. Unaudited Financial Report – Mr. Elrod reviewed with the Board the unaudited financial report which reflects financial activity from January 1, 2009, to September 30, 2009. He reminded the Board that no Class A or Class B assessments were levied in 2009.

For the period January 1, 2009, to September 30, 2009, the Association has incurred administrative expenses in the amount of \$137,404.62. Mr. Elrod noted that most of these expenses are NOLHGA dues and other administrative expenses that are classified as Class A.

Mr. Elrod directed the Board's attention to the amount spent on insolvencies from January 1 through September 30, 2009, which was approximately \$1.5 million.

The balance of Class B Funds as of September 30, 2009, is approximately \$38 million.

- d. Quarterly Investment Report – Mr. Elrod directed the Board's attention to the Quarterly Investment Report for the third quarter of 2009. This report indicates how Class B Funds are invested. Mr. Elrod advised the Board that a copy of the Investment Policy was included in the binder.
- e. Rates of Return Summary – Mr. Elrod reviewed the summary from Smith Barney showing the rate of return on invested assets, the rates of return for the first nine month of 2009, compared with other commonly used indices.
- f. Insolvency Claims and Expenses Net Recoveries – Mr. Elrod directed the Board's attention to the Insolvency Claims and Expenses Net Recoveries report, which shows a cumulative total of all insolvency expenses net of recoveries. Items listed in bold are insolvency expenses in which significant changes occurred since the 2008 Annual Meeting.

Audit Committee

Mr. Elrod reminded the Board that an Audit Committee has been established in 2007 pursuant to a resolution adopted at the 2006 Annual Meeting. The Audit Committee is comprised of Mr. Mike Graham of Plateau Insurance Company, Mr. Wayne Merrill of Tennessee Farmers Insurance Company and Mr. Barry Hopkins of American General Life and Accident Insurance Company. He then asked Mr. Graham to report to the Board regarding the Committee's activities.

- The Audit Committee met on November 6, 2008, and adopted a motion to retain Faulkner Mackie & Cochran, P.C. for the 2008 audit of the Association and preparation of the Association's 2009 tax return, and Faulkner Mackie was retained.
- The Audit Committee met with representatives of Faulkner Mackie and Cochran on April 20, 2009, to review the annual audit. Mr. Graham reported that, at the Board's request at the 2008 Annual Meeting, the Committee requested that Faulkner, Mackie and Cochran rotate its lead partner every seven years, and Faulkner, Mackie will comply with this request. Mr. Graham also noted that the audit report noted that the Association may want to consider the utilization of an independent custodian for their investments.
- The Audit Committee met on September 29, 2009, to discuss the maintenance of the Association's securities in a custodial account. They reviewed proposals by Regions Bank and First Tennessee Bank. The fees charged by these banks ranged from \$16,650.00 to \$22,200.00 per year. The Committee discussed the possibility of having a custodial arrangement with Morgan Stanley who has now merged with the Association's broker, Smith Barney. However, the merger between the

two companies has not reached a point where this can currently be done. Mr. Graham pointed out that the Association presently does not have any securities that require physical custody. The Committee is concerned about the costs associated with a custodial account and the amount of additional labor that would be incurred by the administrative staff of the Association. The Committee intends to discuss this matter further with representatives of Smith Barney and Morgan Stanley in the future.

Mr. Elrod thanked Mr. Graham for his report. Mr. Elrod then suggested to the Board that they may want to have the Audit Committee review the Association's Investment Policy to see if any adjustments are needed. The Investment Policy has been in place since 1989. On motion duly made and seconded, it was affirmed that the Audit Committee would be requested to review the Investment Policy.

Ms. Stokes asked if there were any safeguards in place to ensure that cash receipts intended for the Association were actually being deposited into the Association's accounts. Mr. Graham and Mr. Elrod explained that most large receipts are sent to our accounts via wire transfer. Any checks that are received are relatively small. There are no processes in place to assure receipts are deposited into the Association's accounts, but should a problem arise, the malpractice insurance of Miller & Martin PLLC would cover the lost receipt. Mr. Graham also reminded the Board that Mr. Elrod inspects the financial reports of the Association on a monthly basis, and Faulkner, Mackie & Cochran inspects all deposits during their annual audit.

Insolvency Status Reports

- a. Executive Life Insurance Company – Executive Life Insurance Company continues to be a large annual expense for the Association. Approximately one-half of total payments paid by all Guaranty Associations have been for Executive Life. Mr. Elrod informed the Board that the California Insurance Department's lawsuit against the French companies that purchased ELIC's bonds is still pending. The trial has been continued indefinitely. It is uncertain if the Guaranty Associations will receive the benefit of any recovery.
- b. Executive Life of New York – Executive Life of New York has been under an Order of Supervision since 1991; the Company lost its certificate of authority in the State of Tennessee in 1970, before the Guaranty Association was formed. The Association's statutes can be interpreted to mean that there will be Association coverage even though the company had lost its certificate of authority before the Association was established.

Most of the Company's business is structured settlement annuities. Those contracts are not owned by the person who receives the benefits of the policy. This will present unique challenges for the Guaranty Associations because three

large corporate owners are in two states, but payees are distributed throughout the country. Mr. Elrod stated that it appears that Executive Life of New York will become insolvent in ten to fifteen years, but there have been efforts to devise a global plan with contributions from the Guaranty Associations and the Property/Casualty companies that purchased ELNY annuities to settle claims. These efforts have not resulted in a consensus proposal.

- c. Thunor Trust Companies – Mr. Elrod reminded the Board that one of the companies involved in this insolvency is Franklin American Life Insurance Company, which was domiciled in Tennessee. This insolvency also involves companies domiciled in Alabama, Mississippi and Missouri.

Mr. Elrod reported that the estate of Franklin American is very close to making a distribution that will cover all Guaranty Association expenses except for administrative expenses. Administrative expense claims will be addressed later. The Association's policyholder payments total approximately \$9 million.

Mr. Elrod also stated that we have received distributions from the estates of two other Thunor companies, First National Life Insurance Company of America and International Financial Services Life Insurance Company.

- d. National Heritage Life Insurance Company – National Heritage was a Delaware domiciled Company with its principal office in Florida. The company sold annuities to retirees and was looted by its owners, some of whom have been convicted of crimes and sentenced to prison. As part of the asset recovery effort, the Receiver sued Bear Stearns for selling mortgage-backed securities to the Company without disclosing the risks of such investments; this claim resulted in a judgment for \$25 million plus interest. The main item to be addressed before the Bear Stearns litigation proceeds can be distributed is the estate's federal income tax liability for the amount collected.
- e. Standard Life Insurance Company of Indiana – Mr. Elrod reported that this company is based in Indiana and engaged mainly in the annuity business. Its financial difficulties are related to commercial loans. Standard Life has funding agreements with the Federal Home Loan Bank ("FHLB"), which gives FHLB a secured position in company assets. The Receiver has solicited bids from companies interested in buying the company. It may be difficult to find a buyer for the company because of the FHLB funding agreements. The total deficiency in the company appears to be between \$175 million and \$240 million; information specific to Tennessee is not yet available. If the company is not sold, the Guaranty Associations will likely be required to fund an assumption reinsurance transaction.
- f. Lincoln Memorial Life Insurance Company – Lincoln Memorial Life Insurance Company of Texas and two affiliated companies, National Prearranged Services and Memorial Services Life were placed into liquidation on August 11, 2008. National Prearranged Services is not an insurance company, but entered into pre-

need funeral contracts that were funded by insurance purchased from Lincoln Memorial or Memorial Services Life. The financial difficulties of these companies was caused by the criminal activities of the owners, and there are no assets available to pay claims. The Guaranty Associations, pursuant to a servicing arrangement with the receiver, are paying claims as they are presented. The guaranty system's exposure to this insolvency is about \$600 million, although there may be some reinsurance coverage. Tennessee's exposure is approximately \$11 million.

The Guaranty Associations have collectively filed a lawsuit against the owners. While the claims are meritorious, the availability of assets to pay a judgment is uncertain.

- g. Universal Life Insurance Company/Booker T Washington Insurance Company – Mr. Elrod informed the Board that Universal Life Insurance Company was formerly domiciled in Tennessee, but moved its domicile to Alabama several years ago when it was acquired by Booker T. Washington. These companies sell life insurance, burial policies and industrial health/disability insurance, and they have been in receivership since February 2006. During the receivership, bids were taken for the business of the companies, and this resulted in a coinsurance arrangement with North Carolina Mutual for the life insurance policies that are on a premium paying basis. The Guaranty Associations are attempting to negotiate a contract whereby North Carolina Mutual assumes the policies of the company. The face value of their policies is approximately \$150 million, and the reserve is approximately \$40 million. Tennessee's exposure is about 5% of the reserve value.
- h. Penn Treaty Network America Insurance Company – This is a Pennsylvania company that wrote mainly long term care insurance. It has been in receivership since January 2009, but a petition for liquidation was filed on October 2, 2009. Penn Treaty has an estimated deficiency ranging from \$1.3 billion to \$2.4 billion. The company has enough assets to pay claims for approximately one year. Mr. Elrod stated that the company's annual premium volume in 2007 was about \$285 million, with \$4.3 million of premiums attributable to Tennessee. Based on Tennessee's proportionate share of premiums, Tennessee's share of liabilities would be approximately 1.5% of the total.

Mr. Elrod suggested that, in light of the Penn Treaty situation, this may be a good time to review the Association's health coverage limits. The current limit is \$100,000.00 per person and has been in effect since 1989. The current NAIC model has a limit of \$500,000.00 for traditional medical insurance and \$300,000.00 for long term care and disability. Chairman Roberson has appointed a committee to make recommendations on an Association position relative to updating coverage limits.

- i. Shenandoah Life Insurance Company – This is a Virginia company that writes primarily life, annuity and dental policies. The company was ordered into

Rehabilitation in February 2009. Mr. Elrod stated that the Association has received limited information regarding this company. The company's annual premiums in 2008 were approximately \$322 million nationwide with \$15 million of that originating from Tennessee. Mr. Elrod noted that the need for Guaranty Association funding has not been determined.

- j. Golden State Mutual Life Insurance Company – Mr. Elrod stated this California company was placed in conservation on September 30, 2009. As of the date of the meeting, very little information regarding this company was available.

Matters Relating to Administration

- a. Retention of Faulkner Mackie & Cochran – The consensus of the Board was that the Audit Committee should meet and determine whether Faulkner Mackie should be retained for 2010.
- b. Banking Resolutions – Mr. Elrod explained that the Association's banking institution routinely requests updated banking resolutions, and for such purposes, requested the Board to adopt a resolution authorizing the appropriate Association officers to execute said banking resolutions when necessary. After motion made and seconded, the Board unanimously voted to adopt said resolution.
- c. Conflicts of Interest Policy Statement – Copies of the Association's Conflicts of Interest Policy Statement were distributed to all Board members and administrative staff. Mr. Elrod explained that it is customary to execute and submit the policy statement on an annual basis, and requested that Board members and administrative staff submit executed statements for the coming year.
- d. Privacy Statement – Mr. Elrod directed the Board's attention to the privacy statement prepared in response to the law passed by Congress in 1999 as part of the Gramm-Leach-Bliley Act ("GLB"), which governs the disclosure of consumer's nonpublic personal financial information by financial institutions.

6. CLASS B HEALTH ASSESSMENT

Mr. Elrod informed the Board that the Association in its history has levied two health assessments, the last one being in 2004. The 2004 assessment was in the amount of \$3,850,000.00 and was issued to cover the costs associated with the American Chambers Life Insurance Company and Reliance Insurance Company insolvencies. Since 2004 the Association has paid approximately \$4.5 million in health claims. Mr. Elrod suggested to the Board that it may be appropriate to levy an assessment in the near future to cover the expenses that have been funded by the Association for Life and Health Insurance Company of America, Benicorp Insurance Company and Medical Savings Insurance Company. The estimated claim liability, net of premiums and recoveries, for these companies is approximately \$4.5 million. On motion duly made and seconded, the Board approved the levy of a Class B health assessment in an amount of \$4.5 million.

7. CLASS A ASSESSMENT

Mr. Elrod informed the Board that there is no need to levy a Class A Assessment in 2010.

8. NOLHGA

Mr. Elrod reported that he recently attended the NOLHGA annual meeting. Since 1988 NOLHGA has been involved in 287 insolvencies. After several years of limited activity, it appears that the number of insolvencies may increase because of the downturn of the U.S. economy and the diminished value of insurance company assets.

9. 2009 AND 2010 LEGISLATION

Mr. Elrod advised the Board that legislation was introduced and passed in 2009 raising the coverage limits for annuities from \$100,000.00 per person to \$250,000.00 per person. Ms. Roberson has appointed a Committee to review the coverage limits for other lines of business and other changes to conform to current NAIC model. The Coverage Limits Committee has met one time and will meet again to develop a recommendation for the Board.

10. ELECTION OF OFFICERS

As the next order of business, Ms. Roberson announced the floor was open for the election of officers, and asked for nominations. Upon motion made and seconded, the Board unanimously voted to elect the following officers for 2010:

Chairperson	American General Life & Accident Insurance Company – Sharon K. Roberson
Vice-Chairperson	Tennessee Farmers Life Insurance Company – Edward K. Lancaster
Secretary/Treasurer	Plateau Insurance Company – Dick Williams (with Mike Graham as the alternate representative)

11. CONSIDERATION OF ADMINISTRATOR'S POSITION

The Board asked Mr. Elrod, Ms. Birdwell and Ms. Etheridge to excuse themselves from the meeting during consideration of the proposal from Mr. Elrod to continue as Administrator, as set forth in his letter to Ms. Roberson dated October 6, 2009. Prior to excusing himself from the meeting, Mr. Elrod requested that the Board consider establishing a Management Committee whose members would periodically review the operations of the Administrator's office. The Committee might also establish a succession plan in the event that Mr. Elrod becomes unable to continue as the Administrator of the Association. After discussion of the matter, the Board, upon motion made and seconded, voted unanimously to accept Mr. Elrod's proposal.

12. ADJOURNMENT

There being no further business before the Board, the meeting adjourned at 12:20 P.M.

cc: Board of Directors

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS

December 10, 2009

A meeting of the Board of Directors of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:00 A.M., C.S.T., on December 10, 2009 via teleconference.

1. ATTENDANCE

Present: American General Life & Accident Insurance Company
- Sharon Roberson
BlueCross BlueShield of Tennessee
- Clay Phillips
Connecticut General Life Insurance Company
- John Sorrow
Association Administrator
- Dan Elrod
Assistant to the Administrator
- Renee Birdwell

2. NOTICE OF MEETING

Notice of meeting was properly given.

3. PROPOSED LEGISLATION

Mr. Elrod reminded the Board that the purpose of this meeting had been outlined in his memorandum to them of December 4, 2009. A copy of said memorandum is attached to these minutes.

Mr. Elrod advised the Board that in advance of this meeting he had been contacted by the Board members who represent Prudential Insurance Company of America, Unum Group and Tennessee Farmers Life Insurance Company. Each of these member representatives indicated their support for the recommendations set forth in the attached memorandum.

During the meeting, Board representatives from BlueCross BlueShield of Tennessee and Connecticut General Life Insurance Company indicated that they are not ready to support the health insurance increase to \$300,000.00 at this time pending internal discussions within their companies.

Mr. Elrod stated that he would begin drafting the language necessary to make modifications to the Tennessee Act to bring it in line with the Model Act while he awaits

word from BlueCross BlueShield of Tennessee and Connecticut General Life Insurance Company. He also stated that he would solicit the positions of those companies that had not yet indicated their positions, and that further communications on this subject would be forthcoming by email.

4. ADJOURNMENT

There being no further business before the Board, the meeting adjourned at 10:25 A.M.

cc: Board of Directors

**TENNESSEE LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION**

1200 ONE NASHVILLE PLACE
150 4TH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2433
(615) 242-8758
FAX (615) 256-8197

MEMORANDUM

TO: Board of Directors
Tennessee Life and Health Insurance Guaranty Association

FROM: Dan H. Elrod

RE: Potential Amendments to the Association's Enabling Legislation

DATE: December 4, 2009

At the Board's annual meeting, there was discussion regarding potential interest in making changes to the Association's governing laws to reflect some or all of the current NAIC Model Act for life and health insurance guaranty associations. Prior to the annual meeting, Chairman Roberson had appointed a committee to review this subject and to make recommendations to the full board. Members of the committee are American General (Sharon Roberson), Tennessee Farmers Life Insurance Company (Ed Lancaster) and BlueCross BlueShield of Tennessee (Clay Phillips). This committee met on July 29, and it met again on December 2. The purpose of this memorandum is to report to the full Board the results of the committee's deliberations.

As a further introductory item, a member of the legislature has already stated his intent to introduce legislation in 2010 to increase the limits for health coverage from \$100,000 to \$300,000. This legislator's interest in the subject has been sparked by communications from a constituent expressing concerns regarding the pending insolvency of Penn Treaty Insurance Company, a significant writer of long term care insurance. Coincidentally, the Association has received several calls from Penn Treaty policyholders expressing concerns that the Tennessee guaranty association limits for health coverage are lower than the majority of states, including most of the states contiguous to Tennessee. John Morris, Deputy Commissioner of Commerce and Insurance, has stated that the Department will support legislation to increase the limit for health coverage.

The committee's deliberations included review of the attached documents. The first document is a comparison of existing Tennessee law and the current NAIC Model; the second document is a list of coverage limits in other states. The list of coverage limits in other states does not include legislative activity in 2009.

The deliberations of the committee also included the following points:

1. The limits in Tennessee have not been changed since enactment of the original law in 1988, with the exception of the change in annuity coverage in 2009 from \$100,000 to \$250,000.
2. The insolvency of Penn Treaty is a certainty. If Tennessee maintains its current limit for health coverage, then Tennessee policyholders of Penn Treaty will have less coverage than most of the contiguous states. This disparity in coverage could create negative political repercussions for the state-based regulatory system and/or the guaranty fund system. A negative view of the guaranty fund system could ultimately have adverse implications for the premium tax offset.
3. Under the NAIC Model bill, the limit for basic medical insurance is \$500,000, with a \$300,000 limit for long term care and disability coverages. Current Tennessee law makes no distinction between types of health coverages, i.e., the \$100,000 limit is applicable to all forms of health insurance.
4. The certainty of the insolvency of a long term care insurer brings into focus complications related to funding health insurance insolvencies. Most of the burden from an assessment to cover a health insurance insolvency will fall on the major writers of basic health insurance, even though these companies write little, if any, long term care insurance. On the other hand, it is not practical to create a new account for only long term care companies, because the assessment capacity for such companies would not generate adequate funds.
5. The situation regarding health insurance is further complicated by the possibility of major health insurance reform at the national level, with unknown consequences to the industry.

Taking into account the considerations outlined above, the consensus of the committee was to support a change in the health limit to \$300,000, a limit consistent with most of the contiguous states, but not to support the implementation of the health limits as set forth in the current NAIC Model. In addition, the consensus of the committee was that legislation to increase the health coverage limit should also include additional technical changes identified by the National Organization of Life and Health Insurance Guaranty Associations as priority items for consistency with the current NAIC Model (e.g., revisions for structured settlement annuities, coverage for nonresident citizens, specific provisions on equity indexed products and language clarifying the absence of coverage for extra-contractual obligations). Thus, the recommendation of the committee to the full Board is as follows:

Recommended Position on Proposed Changes to the Tennessee Life and Health Insurance Guaranty Association Act

The Association will support legislation that (1) increases the coverage limitation for health insurance from \$100,000 to \$300,000 and (2) includes technical modifications, as recommended by the National Organization of Life and Health Insurance Guaranty Associations, to make Tennessee law more consistent with the existing NAIC Model.

	<u>Existing TN Law</u>	<u>New Model</u>
<u>Life</u>	\$300k death benefit \$100k cash value	\$300k death benefit \$100k cash value
<u>Health</u>	\$100k for all types; no distinctions between categories of coverage	\$100k – supplemental health \$300k – long term care \$300k – disability \$500k – medical insurance
<u>Allocated Annuities</u>	Effective July 1, 2009, \$250k – present value or net cash surrender Note: Structured settlement annuities not addressed; annuity coverage based on resident of “owner”	\$250k – present value or net cash surrender Note: Specific provisions for resident payees of structural settlement annuities
<u>Unallocated Annuities</u>	No coverage for unallocated annuities	\$5 million if the plan sponsor has its principal place of business in the state or if owned by a resident in connection with a lottery
<u>Aggregate Limits</u>	No more than \$300k expended on one life under all categories	\$300k in benefits for all categories except (i) \$500k in benefits for medical insurance; (ii) \$5 million for an owner of individual life policies covering key employees, etc.; (iii) \$5 million for unallocated annuities

*National Organization of
Life & Health Guaranty Associations*

Benefit Limits at a Glance

Coverage Type	Life		Health	Annuity
	Death Benefit	Cash Value		
Alabama	300,000	100,000	300,000	300,000**
Alaska	300,000	100,000	500,000*	100,000
Arizona	300,000	100,000	300,000	100,000
Arkansas	300,000	300,000	300,000	300,000
California ¹	250,000	100,000	200,000	100,000
Colorado	300,000	100,000	500,000*	100,000
Connecticut	500,000	500,000	500,000	500,000
Delaware	300,000	100,000	500,000*	100,000
DC	300,000	100,000	100,000	300,000
Florida	300,000	100,000	300,000	300,000**
Georgia	300,000	100,000	300,000	300,000**
Hawaii	300,000	100,000	100,000	100,000
Idaho	300,000	100,000	300,000	300,000**
Illinois	300,000	100,000	300,000	100,000
Indiana	300,000	100,000	300,000	100,000
Iowa	300,000	100,000	300,000	250,000
Kansas	300,000	100,000	100,000	100,000
Kentucky	300,000	100,000	100,000	100,000
Louisiana	300,000	100,000	100,000	100,000
Maine	300,000	100,000	500,000*	100,000
Maryland	300,000	100,000	300,000	100,000
Massachusetts	300,000	100,000	100,000	100,000
Michigan	300,000	100,000	500,000*	250,000***
Minnesota ²	390,000	130,000	390,000	130,000 ³

¹ Benefits for life insurance and annuity policies in California are covered at 80% of the contractual obligation, subject to the statutory limits.

² The Minnesota association's benefit limits listed reflect adjustment for inflation in accordance with a US Department of Commerce index as described in §61B.19 Subd. 6.

THIS CHART IS BEING MADE AVAILABLE TO YOU FOR THE LIMITED PURPOSE OF CARRYING OUT YOUR GUARANTY ASSOCIATION RELATED WORK. ALTHOUGH BELIEVED TO BE CORRECT AS OF THE DATE INDICATED, THIS CHART IS BASED ON THE MOST CURRENT STATUTORY MATERIALS AVAILABLE ON LINE TO NOLHGA, AND HAS NOT BEEN REVIEWED BY ANY GUARANTY ASSOCIATION. THIS CHART IS NOT INTENDED AS LEGAL ADVICE; NO LIABILITY IS ASSUMED IN CONNECTION WITH ITS USE. USERS SHOULD SEEK ADVICE FROM A QUALIFIED ATTORNEY AND SHOULD NOT RELY ON THIS COMPILATION WHEN CONSIDERING ANY QUESTIONS RELATING TO GUARANTY ASSOCIATION COVERAGE. NOLHGA, 13873 PARK CENTER ROAD, SUITE 329, HERNDON, VIRGINIA 20171. PHONE: 703/481-5206, FAX: 703/481-5209.

Benefit Limits (cont.)

Mississippi	300,000	100,000	500,000*	100,000
Missouri	300,000	100,000	100,000	100,000
Montana	300,000	100,000	500,000*	100,000
Nebraska	300,000	100,000	500,000	100,000
Nevada	300,000	100,000	500,000*	100,000
New Hampshire	300,000	100,000	100,000	100,000
New Jersey	500,000	100,000	No Limit ⁴	500,000**
New Mexico	300,000	100,000	300,000	300,000**
New York	500,000	500,000	500,000 ⁵	500,000
North Carolina	300,000	300,000	300,000	300,000
North Dakota	300,000	100,000	100,000	100,000
Ohio	300,000	100,000	100,000	100,000
Oklahoma	300,000	100,000	300,000	300,000
Oregon	300,000	100,000	100,000	100,000
Pennsylvania	300,000	100,000	300,000	300,000**
Puerto Rico	300,000	100,000	100,000	100,000
Rhode Island	300,000	100,000	500,000*	100,000
South Carolina	300,000	300,000	300,000	300,000
South Dakota	300,000	100,000	500,000*	100,000
Tennessee	300,000	100,000	100,000	100,000
Texas	300,000	100,000	500,000*	100,000
Utah	500,000 ⁶	200,000	500,000	200,000
Vermont	300,000	100,000	300,000	100,000
Virginia	300,000	100,000	300,000	250,000***
Washington	500,000	500,000	500,000	500,000
West Virginia	300,000	100,000	100,000	100,000
Wisconsin	300,000	300,000	300,000	300,000
Wyoming	300,000	100,000	100,000	100,000

* Guaranty association provides \$100,000 for health coverage not defined as disability insurance or basic hospital, medical, and surgical insurance or major medical insurance, \$300,000 for disability insurance and \$500,000 for basic hospital, medical, and surgical insurance or major medical insurance (with the exception of Maine, which provides \$300,000 instead of \$100,000)

³ The \$130,000 limit is for annuity net cash surrender and net cash withdrawal values; if annuitized, the benefit limit is \$390,000.

⁴ New Jersey sets no cap on its medical coverage, covering claims up to the limits of the policy, but limiting the benefit to 80% coverage if the provider seeks coverage (as opposed to the insured).

⁵ The \$500,000 limit is for individual health policies issued by life companies; there is no coverage for policies issued by non-life companies, and unlimited coverage for group or blanket health insurance issued by a life company.

⁶ The \$500,000 limit applies if death occurs before the guaranty association is triggered. If death occurs after triggering, the benefit is limited to the covered portion of the policy as defined by statutory reference to covered cash value.



TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

April 20, 2009

A called meeting of the Audit Committee of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:00 A.M. C.D.T. on April 20, 2009 at the offices of the Association, 1200 One Nashville Place, 150 Fourth Avenue North, Nashville, Tennessee.

1. ATTENDANCE

Present:

- Barry Hopkins
- American General Life and Accident Insurance Company
- Wayne Merrill
- Tennessee Farmers Insurance Companies
- Mike Graham
- Plateau Insurance Company
- Jerry Faulkner
- Faulkner Mackie & Cochran P.C.
- Janet Jones
- Faulkner Mackie & Cochran P.C.
- Dan H. Elrod
- Association Administrator
- Renee Birdwell
- Assistant to the Administrator

2. NOTICE OF MEETING

Notice of the meeting was properly given

3. FAULKNER MACKIE & COCHRAN P.C.

Ms. Jones and Mr. Faulkner reviewed the draft annual audit for 2008, noting that no questionable items or problems had been identified. Ms. Jones then directed the Committee's attention to the Report to the Audit Committee (a copy of which is attached to these minutes). In particular she addressed the issues listed under "Opportunities for Improving Operations and Strengthening Internal Controls" on page 5 of said document. The Committee discussed the recommendation that the Association consider the utilization of an independent custodian for their investments. Ms. Jones also recommended that the Committee consider a review of the Investment Policy of the Association to determine if any changes should be made to the average maturity standard and to determine if a policy regarding impaired investments should be adopted. It was further recommended that the Committee consider reviews and approvals of sales and purchases of investments on a quarterly basis.

After Ms. Jones and Mr. Faulkner excused themselves from the meeting, the Committee discussed potential action in regard to the recommendations. Mr. Elrod will develop cost estimates from at least two banks and report to the Committee. The Committee will reconvene after Mr. Elrod has information regarding the costs associated with a custodial account.

4. ADJOURNMENT

There being no further business before the Committee, the meeting adjourned at 11:30 A.M.

cc: Audit Committee
Board of Directors

**Tennessee Life and Health Insurance
Guaranty Association**

REPORT TO THE AUDIT COMMITTEE

Communication of 2008 Audit Results

April 1, 2009



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

FAULKNER MACKIE & COCHRAN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

One American Center
3100 West End Avenue, Suite 700
Nashville, Tennessee 37203-1372

Telephone: (615) 292-3011
Fax: (615) 269-9047
Website: www.fmccpa.com

April 1, 2009

To the Members of the Audit Committee
Tennessee Life and Health Insurance Guaranty Association
Nashville, Tennessee

Dear Members of the Audit Committee:

We have audited the statement of cash receipts and disbursements, and changes in fund balance of the **Tennessee Life and Health Insurance Guaranty Association** (the "Association") for the year ended December 31, 2008, and have prepared a draft of our report thereon dated March 25, 2009. To provide the committee with additional information regarding the scope and results of the audit, this document has been prepared to summarize areas of audit emphasis, communications required by our professional standards, and current accounting issues that may be relevant to the Association.

This information is intended solely for the use of the Audit Committee, Board of Directors and management (the Administrator) of the Association and is not intended and should not be used by anyone other than these specified parties.

We look forward to the opportunity to meet with you at 10:00 on Monday, April 20, 2009. Should you have any questions or comments, please contact me.

Very truly yours,



Jerry Faulkner

Enclosure

Copy: Dan Elrod, Administrator



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2008 Audit Results

CONTENTS

	<u>Page</u>
Required Communications	2
Current Issues	5



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2008 Audit Results

REQUIRED COMMUNICATIONS

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 29, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the statement of cash receipts and disbursements, and changes in fund balance is fairly presented, in all material respects, in conformity with the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Our audit of the financial statement does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We planned the audit to be responsive to our assessment of risk for the Association, considering the cash basis of accounting utilized by the Association for its statement of cash receipts and disbursements, and changes in fund balance. Consistent with prior years, we have not been engaged to audit any other assets or liabilities of the Association.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statement and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or acts by management or employees acting on behalf of the entity.

We performed the audit according to the planned scope and timing previously communicated to Dan Elrod, Administrator, as described in our engagement letter dated December 29, 2008.



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2008 Audit Results

REQUIRED COMMUNICATIONS (continued)

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in Note 1 to the financial statements. No new accounting policies were adopted other than related to FASB Interpretation No. 48, *Accounting for Uncertainty of Income Taxes*, ("FIN 48"), as described in Note 1 to the financial statements. Also, the application of existing policies was not changed during 2008. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period, for purposes of the cash basis of accounting.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. However, utilizing the cash basis of accounting minimizes the need for estimates by management.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. However, we are not aware of any disclosures that are particularly sensitive.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. Furthermore, the Association's Administrator and staff responded to our requests and inquiries in a courteous, professional manner.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements that we identified during the audit.



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2008 Audit Results

REQUIRED COMMUNICATIONS (continued)

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management (Dan Elrod, Administrator) that are included in the management representation letter dated March 25, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2008 Audit Results

CURRENT ISSUES

Opportunities for Improving Operations and Strengthening Internal Controls

We plan to discuss the following items when we meet with members of the Audit Committee on April 20, 2009:

Investments

- Consider the potential benefit of utilizing an independent custodian.
- Review the Association's investment policy:
 - Maturities – current investment policy states: "...the average maturities of [direct obligations of the United States and United States agencies] shall not exceed 365 days, and no obligations shall have a maturity in excess of 36 months."
 - Impairment – consider the need to establish guidance for determining "other than temporary" impairment losses.
- Consider appropriateness of Board or Audit Committee subsequent review and approval of sales and purchases of investments on a quarterly basis, similar to requirements of insurance companies.

Prior Year Comments

During our 2007 audit, we noted an internal control deficiency because only one person was required to authorize disbursements via outgoing wire transfers, regardless of the dollar amount, from Class B funds at First Tennessee Bank and Smith Barney. By contrast, two signatures were required for checks written of \$500 or more.

In May of 2008, the Board of Directors approved banking resolutions requiring two authorizations on all outgoing wire transfers from Class B funds at First Tennessee Bank. Also, a resolution was approved to restrict all outgoing wire transfers from Class B funds at Smith Barney to First Tennessee Bank. This would effectively subject all outgoing wire transfers to dual authorization.

To test the Association's newly implemented internal control over wire transfers, we expanded our 2008 audit procedures. There were no unusual or unsupported disbursements noted by our expanded procedures. All outgoing wire transfers tested appear to have received proper authorization.



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2008 Audit Results

CURRENT ISSUES (continued)

The following additional prior year matters are being repeated for your consideration:

1. Allocation of investment income - Over the years, investment income has been significant to the Association. It is our understanding that the Association has not periodically allocated investment income to each line of business (i.e. life, annuity, and health) based on the average balance of each insolvency estate. We believe management should consider performing such an allocation process for investment income received, including realized gains and losses, on an annual basis. (This could entail significant effort, especially to allocate investment income for prior years.)

By allocating investment income to each line of business, the Board of Directors will have more complete information to determine the appropriate level of Class B net assets (fund balance) to maintain or refund to member companies.

2. Net assets (fund balance) by each insolvency estate and line of business - We believe management should periodically (quarterly or annually) summarize the balance of net assets held for each insolvency estate versus the Association's remaining net assets.

We understand that the Audit Committee members have discussed the allocation of investment income and some preliminary work has occurred.

Audit Partner Rotation

According to the guidance currently set forth by the National Association of Insurance Commissioners ("NAIC") regarding the audits of insurance companies, the lead partner is required to rotate off an engagement after a period of seven years, but may return as lead partner after a two year break in service. However, starting with 2010 audits, lead partners will be required to rotate every five years. While the Association is not directly subject to this guidance, we currently plan to rotate off the lead partner, Jerry Faulkner, for the 2010 audit. We plan to discuss partner rotation with Audit Committee members in advance of the audit for 2010.

Fraud Awareness

In the coming weeks, we plan to provide via email our "2009 Fraud Awareness" report to Dan Elrod, Administrator, for his use and distribution to the Audit Committee and Board of Directors. Although the Association is a non-profit entity that serves the life and health insurance industry in Tennessee, we are summarizing the key exhibits and text from the 2008 Report to the Nation on Occupational Fraud and Abuse published by the Association of Certified Fraud Examiners bi-annually that we believe to be most applicable to companies operating in the insurance industry. Minimal information on non-profit organizations is available. We believe fraud awareness is important for on-going consideration by the management of any organization.



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2008 Audit Results

CURRENT ISSUES (continued)

Your Questions or Comments

At your request, we will be glad to discuss any specific questions or comments you may have about the above issues.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

September 29, 2009

A called meeting of the Audit Committee of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:00 A.M. C.D.T. on September 29, 2009 via teleconference

1. ATTENDANCE

Present: Barry Hopkins
-American General Life and Accident Insurance Company
Wayne Merrill
-Tennessee Farmers Insurance Companies
Mike Graham
-Plateau Insurance Company
Dan H. Elrod
-Association Administrator
Renee Birdwell
-Assistant to the Administrator

2. NOTICE OF MEETING

Notice of the meeting was properly given

3. MAINTENANCE OF SECURITIES IN CUSTODIAL ACCOUNT

Mr. Elrod reminded the Committee that during the annual audit, Faulkner Mackie & Cochran suggested that the Association consider the possibility of maintaining its securities in a custodial account through a bank that is a member of the Federal Reserve .

Mr. Elrod spoke with three financial entities regarding their fees for services involved in maintaining a custodial account.

- a. First Tennessee Bank quoted an annual fee of 6 basis points, plus \$10.00 for each securities transaction. The Association has approximately 20 transactions per month so this would run about \$22,200.00 per year.
- b. Regions Bank quoted an annual fee of 4.5 basis points based on market value of the account. There are no additional fees charged. This would run approximately \$16,650.00 per year.

- c. Mr. Elrod reported that he had contacted Chip Hickerson of Smith Barney regarding a proposal from Morgan Stanley, which is a bank and which recently merged with Smith Barney. As of the date of the meeting, a proposal had not been received from Morgan Stanley.

The Committee discussed the advantages and disadvantages of maintaining a custodial account. It was noted that with all securities now held through electronic book entry, there is almost no risk of fraud or theft. Concerns were also expressed as to additional work required and expense incurred for a separate custodial account. This does not appear to be a compliance issue, since the previous examinations by the Department of Commerce and Insurance have not contained any recommended changes.

After additional discussion, the Committee decided that they would take no action on this matter until a quote is received from Morgan Stanley.

4. ADJOURNMENT

There being no further business before the Committee, the meeting adjourned at 10:30 A.M.

cc: Audit Committee
Board of Directors

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

November 10, 2009

A called meeting of the Audit Committee of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened via teleconference at 10:00 A.M. C.S.T. on November 10, 2009.

1. ATTENDANCE

Present: Barry Hopkins
-American General Life and Accident Insurance Company
Wayne Merrill
-Tennessee Farmers Insurance Companies
Mike Graham
-Plateau Insurance Company
Dan H. Elrod
-Association Administrator
Renee Birdwell
-Assistant to the Administrator

2. NOTICE OF MEETING

Notice of the meeting was properly given

3. RETENTION OF FAULKNER MACKIE & COCHRAN P.C. ("FMC")

Mr. Elrod called the meeting to order. He informed the Audit Committee that the Board of Directors had delegated to the Committee the determination as to whether the accounting firm of FMC should be retained to conduct the annual audit of the records of the Association and to complete the Association's Federal tax return.

After review of the amounts paid to FMC for the past four years, the Committee unanimously approved the retention of FMC for the upcoming audit of records and preparation of the Association's tax return.

4. INVESTMENT POLICY

Mr. Elrod directed the Committee's attention to the Association's Investment Policy which had been distributed to Committee Members in advance of this meeting. A copy of said policy is attached to these minutes. Mr. Elrod conveyed to the Committee that the

Board of Directors, at its annual meeting, had requested the Committee to review the Investment Policy and to consider an update of the policy in light of current circumstances, including liquidity consideration.

The Committee discussed the Investment Policy. A consensus of the Committee was that it would be prudent to schedule a meeting with the Association's investment representative, M. Wright ("Chip") Hickerson to discuss the possible changes to the Investment policy. Mr. Elrod was directed to arrange such a meeting in the near future.

5. ADJOURNMENT

There being no further business before the Committee, the meeting adjourned at 10:21 A.M. CST.

cc: Audit Committee
Board of Directors

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

INVESTMENT POLICY

OBJECTIVES

All investments executed on behalf of the Association should be within the framework of the following objectives:

- Safety of principle
- High degree of liquidity
- Maximization of income

GUIDELINES

Investments may be made in the following items with the restrictions as stated:

- Direct obligations of United States
- Obligations of the following federal agencies:

Federal Home Loan Bank
Federal Home Loan Mortgage Corporation
Federal National Mortgage Association

No more than fifty percent (50%) of the Association's assets may be invested in agency obligations, and no more than twenty percent (20%) of the Association's assets shall be invested in the obligations of any one agency.

- Money Market Fund backed by direct obligations of United States

BANK DEPOSITS

Depository banks shall have assets of at least \$5 billion.

With respect to direct obligations of United States and obligations of United States agencies, as described above, the average maturity of all such obligations shall not exceed 365 days, and no obligations shall have a maturity in excess of 36 months.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION
NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE COVERAGE LIMITS COMMITTEE

July 29, 2009

A called meeting of the Coverage Limits Committee of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 2:30 P.M. C.D.T. on July 29, 2009 at the offices of the Association, 1200 One Nashville Place, 150 Fourth Avenue North, Nashville, Tennessee.

1. ATTENDANCE

Present:

- Sharon Roberson
- American General Life & Accident Insurance Co.
- via teleconference
- Edward K. Lancaster
- Tennessee Farmers Life Insurance Company
- J. Barclay Phillips
- BlueCross BlueShield of Tennessee
- via teleconference
- Dan H. Elrod
- Association Administrator
- Renee Birdwell
- Assistant to the Administrator

2. NOTICE OF MEETING

Notice of the meeting was properly given

3. COVERAGE LIMITS

Mr. Elrod presided at the meeting and Ms. Birdwell kept the minutes of the meeting.

Mr. Elrod informed the Committee that he has been advised by representatives of the Department of Commerce and Insurance that they intend to propose legislation in the 2010 session to address Guaranty Association coverage limits.

Mr. Elrod asked the Committee to review the current coverage limits and the NOLHGA Model Act which had previously been distributed to them in order to make recommendations to the Department regarding future coverage limits.

After much discussion the Committee reached a consensus that it would recommend against an initiative to change coverage limits. With regard to the Association's position in response to a Department initiative, the Committee posed several questions that require additional investigation. Those questions involve determining the general industry positions on unallocated annuities, the aggregate limit in the model applicable to owners of multiple life policies and disclosure by agents before sale. Mr. Elrod informed the Committee that he would investigate their questions and have the Committee reconvene in a few weeks.

4. ADJOURNMENT

There being no further business before the Committee, the meeting adjourned at 3:15 P.M.

cc: Coverage Limits Committee
Board of Directors

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE COVERAGE LIMITS COMMITTEE

December 2, 2009

A called meeting of the Coverage Limits Committee of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:00 A.M. C.S.T. on December 2, 2009, via teleconference.

1. ATTENDANCE

Present: Sharon Roberson
-American General Life & Accident Insurance Co.
Edward K. Lancaster
-Tennessee Farmers Life Insurance Company
J. Barclay Phillips
-BlueCross BlueShield of Tennessee
Dan H. Elrod
-Association Administrator
Renee Birdwell
-Assistant to the Administrator

2. NOTICE OF MEETING

Notice of the meeting was properly given.

3. COVERAGE LIMITS

The Committee was convened, and discussed potential changes in Tennessee law relative to increased limits for health coverage and other changes to address differences between existing law and the current NAIC Model. The Committee reached a general consensus to support legislation that increases the coverage limitation for health insurance to \$300,000 and that incorporate technical modifications recommended by the National Organization of Life and Health Insurance Guaranty Associations. The Committee asked Mr. Elrod to report this recommendation to the full Board, and he subsequently did so with the memorandum that is attached.

4. ADJOURNMENT

There being no further business before the Committee, the meeting adjourned at 10:35 A.M.

cc: Coverage Limits Committee
Board of Directors

**TENNESSEE LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION**

1200 ONE NASHVILLE PLACE
150 4TH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2433
(615) 242-8758
FAX (615) 256-8197

MEMORANDUM

TO: Board of Directors
Tennessee Life and Health Insurance Guaranty Association

FROM: Dan H. Elrod

RE: Potential Amendments to the Association's Enabling Legislation

DATE: December 4, 2009

At the Board's annual meeting, there was discussion regarding potential interest in making changes to the Association's governing laws to reflect some or all of the current NAIC Model Act for life and health insurance guaranty associations. Prior to the annual meeting, Chairman Roberson had appointed a committee to review this subject and to make recommendations to the full board. Members of the committee are American General (Sharon Roberson), Tennessee Farmers Life Insurance Company (Ed Lancaster) and BlueCross BlueShield of Tennessee (Clay Phillips). This committee met on July 29, and it met again on December 2. The purpose of this memorandum is to report to the full Board the results of the committee's deliberations.

As a further introductory item, a member of the legislature has already stated his intent to introduce legislation in 2010 to increase the limits for health coverage from \$100,000 to \$300,000. This legislator's interest in the subject has been sparked by communications from a constituent expressing concerns regarding the pending insolvency of Penn Treaty Insurance Company, a significant writer of long term care insurance. Coincidentally, the Association has received several calls from Penn Treaty policyholders expressing concerns that the Tennessee guaranty association limits for health coverage are lower than the majority of states, including most of the states contiguous to Tennessee. John Morris, Deputy Commissioner of Commerce and Insurance, has stated that the Department will support legislation to increase the limit for health coverage.

The committee's deliberations included review of the attached documents. The first document is a comparison of existing Tennessee law and the current NAIC Model; the second document is a list of coverage limits in other states. The list of coverage limits in other states does not include legislative activity in 2009.

The deliberations of the committee also included the following points:

1. The limits in Tennessee have not been changed since enactment of the original law in 1988, with the exception of the change in annuity coverage in 2009 from \$100,000 to \$250,000.
2. The insolvency of Penn Treaty is a certainty. If Tennessee maintains its current limit for health coverage, then Tennessee policyholders of Penn Treaty will have less coverage than most of the contiguous states. This disparity in coverage could create negative political repercussions for the state-based regulatory system and/or the guaranty fund system. A negative view of the guaranty fund system could ultimately have adverse implications for the premium tax offset.
3. Under the NAIC Model bill, the limit for basic medical insurance is \$500,000, with a \$300,000 limit for long term care and disability coverages. Current Tennessee law makes no distinction between types of health coverages, i.e., the \$100,000 limit is applicable to all forms of health insurance.
4. The certainty of the insolvency of a long term care insurer brings into focus complications related to funding health insurance insolvencies. Most of the burden from an assessment to cover a health insurance insolvency will fall on the major writers of basic health insurance, even though these companies write little, if any, long term care insurance. On the other hand, it is not practical to create a new account for only long term care companies, because the assessment capacity for such companies would not generate adequate funds.
5. The situation regarding health insurance is further complicated by the possibility of major health insurance reform at the national level, with unknown consequences to the industry.

Taking into account the considerations outlined above, the consensus of the committee was to support a change in the health limit to \$300,000, a limit consistent with most of the contiguous states, but not to support the implementation of the health limits as set forth in the current NAIC Model. In addition, the consensus of the committee was that legislation to increase the health coverage limit should also include additional technical changes identified by the National Organization of Life and Health Insurance Guaranty Associations as priority items for consistency with the current NAIC Model (e.g., revisions for structured settlement annuities, coverage for nonresident citizens, specific provisions on equity indexed products and language clarifying the absence of coverage for extra-contractual obligations). Thus, the recommendation of the committee to the full Board is as follows:

Recommended Position on Proposed Changes to the Tennessee Life and Health Insurance Guaranty Association Act

The Association will support legislation that (1) increases the coverage limitation for health insurance from \$100,000 to \$300,000 and (2) includes technical modifications, as recommended by the National Organization of Life and Health Insurance Guaranty Associations, to make Tennessee law more consistent with the existing NAIC Model.

	<u>Existing TN Law</u>	<u>New Model</u>
<u>Life</u>	\$300k death benefit \$100k cash value	\$300k death benefit \$100k cash value
<u>Health</u>	\$100k for all types; no distinctions between categories of coverage	\$100k – supplemental health \$300k – long term care \$300k – disability \$500k – medical insurance
<u>Allocated Annuities</u>	Effective July 1, 2009, \$250k – present value or net cash surrender Note: Structured settlement annuities not addressed; annuity coverage based on resident of “owner”	\$250k – present value or net cash surrender Note: Specific provisions for resident payees of structural settlement annuities
<u>Unallocated Annuities</u>	No coverage for unallocated annuities	\$5 million if the plan sponsor has its principal place of business in the state or if owned by a resident in connection with a lottery
<u>Aggregate Limits</u>	No more than \$300k expended on one life under all categories	\$300k in benefits for all categories except (i) \$500k in benefits for medical insurance; (ii) \$5 million for an owner of individual life policies covering key employees, etc.; (iii) \$5 million for unallocated annuities

*National Organization of
Life & Health Guaranty Associations*

Benefit Limits at a Glance

Coverage Type	Life		Health	Annuity
	Death Benefit	Cash Value		
Alabama	300,000	100,000	300,000	300,000**
Alaska	300,000	100,000	500,000*	100,000
Arizona	300,000	100,000	300,000	100,000
Arkansas	300,000	300,000	300,000	300,000
California ¹	250,000	100,000	200,000	100,000
Colorado	300,000	100,000	500,000*	100,000
Connecticut	500,000	500,000	500,000	500,000
Delaware	300,000	100,000	500,000*	100,000
DC	300,000	100,000	100,000	300,000
Florida	300,000	100,000	300,000	300,000**
Georgia	300,000	100,000	300,000	300,000**
Hawaii	300,000	100,000	100,000	100,000
Idaho	300,000	100,000	300,000	300,000**
Illinois	300,000	100,000	300,000	100,000
Indiana	300,000	100,000	300,000	100,000
Iowa	300,000	100,000	300,000	250,000
Kansas	300,000	100,000	100,000	100,000
Kentucky	300,000	100,000	100,000	100,000
Louisiana	300,000	100,000	100,000	100,000
Maine	300,000	100,000	500,000*	100,000
Maryland	300,000	100,000	300,000	100,000
Massachusetts	300,000	100,000	100,000	100,000
Michigan	300,000	100,000	500,000*	250,000***
Minnesota ²	390,000	130,000	390,000	130,000 ³

¹ Benefits for life insurance and annuity policies in California are covered at 80% of the contractual obligation, subject to the statutory limits.

² The Minnesota association's benefit limits listed reflect adjustment for inflation in accordance with a US Department of Commerce index as described in §61B.19 Subd. 6.

THIS CHART IS BEING MADE AVAILABLE TO YOU FOR THE LIMITED PURPOSE OF CARRYING OUT YOUR GUARANTY ASSOCIATION RELATED WORK. ALTHOUGH BELIEVED TO BE CORRECT AS OF THE DATE INDICATED, THIS CHART IS BASED ON THE MOST CURRENT STATUTORY MATERIALS AVAILABLE ON LINE TO NOLHGA, AND HAS NOT BEEN REVIEWED BY ANY GUARANTY ASSOCIATION. THIS CHART IS NOT INTENDED AS LEGAL ADVICE; NO LIABILITY IS ASSUMED IN CONNECTION WITH ITS USE. USERS SHOULD SEEK ADVICE FROM A QUALIFIED ATTORNEY AND SHOULD NOT RELY ON THIS COMPILATION WHEN CONSIDERING ANY QUESTIONS RELATING TO GUARANTY ASSOCIATION COVERAGE. NOLHGA, 13873 PARK CENTER ROAD, SUITE 329, HERNDON, VIRGINIA 20171. PHONE: 703/481-5206, FAX: 703/481-5209.

Benefit Limits (cont.)

Mississippi	300,000	100,000	500,000*	100,000
Missouri	300,000	100,000	100,000	100,000
Montana	300,000	100,000	500,000*	100,000
Nebraska	300,000	100,000	500,000	100,000
Nevada	300,000	100,000	500,000*	100,000
New Hampshire	300,000	100,000	100,000	100,000
New Jersey	500,000	100,000	No Limit ⁴	500,000**
New Mexico	300,000	100,000	300,000	300,000**
New York	500,000	500,000	500,000 ⁵	500,000
North Carolina	300,000	300,000	300,000	300,000
North Dakota	300,000	100,000	100,000	100,000
Ohio	300,000	100,000	100,000	100,000
Oklahoma	300,000	100,000	300,000	300,000
Oregon	300,000	100,000	100,000	100,000
Pennsylvania	300,000	100,000	300,000	300,000**
Puerto Rico	300,000	100,000	100,000	100,000
Rhode Island	300,000	100,000	500,000*	100,000
South Carolina	300,000	300,000	300,000	300,000
South Dakota	300,000	100,000	500,000*	100,000
Tennessee	300,000	100,000	100,000	100,000
Texas	300,000	100,000	500,000*	100,000
Utah	500,000 ⁶	200,000	500,000	200,000
Vermont	300,000	100,000	300,000	100,000
Virginia	300,000	100,000	300,000	250,000***
Washington	500,000	500,000	500,000	500,000
West Virginia	300,000	100,000	100,000	100,000
Wisconsin	300,000	300,000	300,000	300,000
Wyoming	300,000	100,000	100,000	100,000

* Guaranty association provides \$100,000 for health coverage not defined as disability insurance or basic hospital, medical, and surgical insurance or major medical insurance, \$300,000 for disability insurance and \$500,000 for basic hospital, medical, and surgical insurance or major medical insurance (with the exception of Maine, which provides \$300,000 instead of \$100,000)

³ The \$130,000 limit is for annuity net cash surrender and net cash withdrawal values; if annuitized, the benefit limit is \$390,000.

⁴ New Jersey sets no cap on its medical coverage, covering claims up to the limits of the policy, but limiting the benefit to 80% coverage if the provider seeks coverage (as opposed to the insured).

⁵ The \$500,000 limit is for individual health policies issued by life companies; there is no coverage for policies issued by non-life companies, and unlimited coverage for group or blanket health insurance issued by a life company.

⁶ The \$500,000 limit applies if death occurs before the guaranty association is triggered. If death occurs after triggering, the benefit is limited to the covered portion of the policy as defined by statutory reference to covered cash value.

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Home Loan Mtg Corp	4/1/2008	\$ 30,000.00	1/15/2010	\$ 29,991.30
Federal Natl Mtg Assn Global	3/18/2008	\$ 106,000.00	2/7/2010	\$ 105,922.62
Federal Natl Mtg Assn FNMA Deb Strip	4/1/2008	\$ 46,000.00	2/12/2010	\$ 45,961.36
Federal Judiciary Office Bldg TR Zero	2/21/2007	\$ 21,000.00	2/15/2010	\$ 20,974.80
Federal National Mtg Assn Global	10/30/2007	\$ 225,000.00	2/15/2010	\$ 225,985.50
"	10/30/2007	\$ 138,000.00	2/15/2010	\$ 138,604.44
Federal Natl Mtg Assn Cons Bds	4/7/2008	\$ 24,000.00	3/23/2010	\$ 23,960.40
Federal Home Loan Bank Cons	1/12/2007	\$ 25,000.00	4/5/2010	\$ 25,297.00
Federal Natl Mtg Assn Debs	2/20/2008	\$ 1,000,000.00	4/9/2010	\$ 1,006,250.00
"	5/16/2008	\$ 200,000.00	4/9/2010	\$ 201,250.00
"	5/19/2008	\$ 200,000.00	4/9/2010	\$ 201,250.00
Federal Home Loan Mtg Corp Med	12/18/2007	\$ 25,000.00	4/14/2010	\$ 25,268.00
Federal Natl Mtg Assn Global	10/11/2007	\$ 39,000.00	5/15/2010	\$ 39,560.82
Government Backed Trust Zero Cpn	9/21/2007	\$ 39,000.00	5/15/2010	\$ 38,860.77
"	2/14/2008	\$ 25,000.00	5/15/2010	\$ 24,910.75
"	2/22/2008	\$ 23,000.00	5/15/2010	\$ 22,917.89
"	11/1/2007	\$ 22,000.00	5/15/2010	\$ 21,921.46
Government Trust CTF - Zero Cpn	12/18/2006	\$ 15,000.00	5/15/2010	\$ 14,946.45
"	1/24/2007	\$ 20,000.00	5/15/2010	\$ 19,928.60
"	1/4/2008	\$ 38,000.00	5/15/2010	\$ 37,864.34

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Government Trust CTF - Zero Cpn	2/7/2008	\$ 23,000.00	5/15/2010	\$ 22,917.89
"	3/27/2008	\$ 15,000.00	5/15/2010	\$ 14,946.45
"	4/2/2008	\$ 64,000.00	5/15/2010	\$ 63,771.52
"	11/24/2006	\$ 22,000.00	5/15/2010	\$ 21,921.46
"	3/20/2007	\$ 10,000.00	5/15/2010	\$ 9,964.30
"	3/21/2007	\$ 10,000.00	5/15/2010	\$ 9,964.30
"	3/26/2007	\$ 10,000.00	5/15/2010	\$ 9,964.30
"	9/19/2007	\$ 51,000.00	5/15/2010	\$ 50,817.93
"	1/30/2008	\$ 19,000.00	5/15/2010	\$ 18,932.17
"	2/26/2008	\$ 22,000.00	5/15/2010	\$ 21,921.46
"	4/3/2008	\$ 31,000.00	5/15/2010	\$ 30,889.33
Strips-TINT-US Treasury	2/26/2009	\$ 74,000.00	5/15/2010	\$ 73,982.24
Federal Natl Mtg Assn Bk	5/27/2008	\$ 25,000.00	6/9/2010	\$ 25,320.25
Federal Home Long Mtg	3/31/2008	\$ 58,000.00	7/15/2010	\$ 57,721.60
"	4/9/2008	\$ 20,000.00	7/15/2010	\$ 19,904.20
Federal Natl Mtg Assn Med	5/3/2007	\$ 29,000.00	7/28/2010	\$ 29,716.01
"	6/22/2007	\$ 20,000.00	7/28/2010	\$ 20,493.80
"	7/2/2007	\$ 15,000.00	7/28/2010	\$ 15,370.35
Agency Strips-Ser 1 Int Pmt	4/7/2008	\$ 29,000.00	8/12/2010	\$ 28,826.87
Strips-Tint-U.S. Treasury	5/21/2008	\$ 53,000.00	8/15/2010	\$ 52,889.23
"	7/31/2008	\$ 100,000.00	8/15/2010	\$ 99,791.00
Federal Natl Mtg Assn Med Term	5/14/2008	\$ 21,000.00	9/23/2010	\$ 20,842.08
Government Loan Trust Zero Cpn	1/29/2007	\$ 15,000.00	10/1/2010	\$ 14,854.80
"	2/26/2007	\$ 40,000.00	10/1/2010	\$ 39,612.80
"	5/24/2007	\$ 9,000.00	10/1/2010	\$ 8,912.88
"	10/11/2007	\$ 19,000.00	10/1/2010	\$ 18,816.08
"	3/25/2008	\$ 21,000.00	10/1/2010	\$ 20,796.72

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Natl Mtg Assn Generic Int Pmt	3/18/2008	\$ 68,000.00	11/15/2010	\$ 67,346.52
Federal Natl Mtg Assn Deb Print Pmt	3/27/2008	\$ 37,000.00	11/15/2010	\$ 36,641.47
Govt Backed Trust - Zero Cpn	2/9/2007	\$ 10,000.00	11/15/2010	\$ 9,882.20
"	2/12/2007	\$ 26,000.00	11/15/2010	\$ 25,693.72
"	2/15/2007	\$ 19,000.00	11/15/2010	\$ 18,776.18
"	1/24/2008	\$ 43,000.00	11/15/2010	\$ 42,493.46
Govnt Trust Ctf-Zero Cpn	11/27/2006	\$ 32,000.00	11/15/2010	\$ 31,623.04
"	3/12/2007	\$ 10,000.00	11/15/2010	\$ 9,882.20
"	11/26/2007	\$ 33,000.00	11/15/2010	\$ 32,611.26
"	3/28/2008	\$ 28,000.00	11/15/2010	\$ 27,670.16
Govnt Trust Ctf-Zero Cpn	4/14/2008	\$ 20,000.00	11/15/2010	\$ 19,764.40
"	3/1/2007	\$ 6,000.00	11/15/2010	\$ 5,929.32
"	1/24/2008	\$ 29,000.00	11/15/2010	\$ 28,658.38
Strips-TNT-U.S. Treasury Int	5/21/2008	\$ 49,000.00	11/15/2010	\$ 48,802.53
"	2/23/2009	\$ 190,000.00	11/15/2010	\$ 189,234.30
"	2/23/2009	\$ 126,000.00	11/15/2010	\$ 125,492.22
"	2/23/2009	\$ 300,000.00	11/15/2010	\$ 298,791.00
Federal Home Loan Mtg Corp	10/17/2007	\$ 10,000.00	12/16/2010	\$ 10,359.40
Agency Strips-SER 1-Int Pmt	3/2/2009	\$ 25,000.00	2/12/2011	\$ 24,629.00
Federal Natl Mtg Assn Cpn Fnma	2/28/2008	\$ 53,000.00	2/12/2011	\$ 52,212.42
Strips-Tint-US Treasury	1/30/2009	\$ 62,000.00	2/15/2011	\$ 61,526.32
"	2/20/2009	\$ 190,000.00	2/15/2011	\$ 188,548.40
"	2/26/2009	\$ 224,000.00	2/15/2011	\$ 222,288.64
"	3/2/2009	\$ 78,000.00	2/15/2011	\$ 77,404.08
"	3/13/2009	\$ 250,000.00	2/15/2011	\$ 248,090.00
"	5/21/2009	\$ 160,000.00	2/15/2011	\$ 158,777.60

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Home Loan Bank Const	11/12/2008	\$ 45,000.00	3/11/2011	\$ 46,111.05
Federal Home Loan Mtg Corp	3/23/2009	\$ 10,000.00	3/23/2009	\$ 9,836.80
Financing Corp Cpn FICO	2/12/2008	\$ 100,000.00	4/6/2011	\$ 98,185.00
"	2/13/2008	\$ 100,000.00	4/6/2011	\$ 98,185.00
"	2/15/2008	\$ 28,000.00	4/6/2011	\$ 27,491.80
FICO Zero Cpn	3/18/2008	\$ 31,000.00	5/2/2011	\$ 30,414.41
Federal Natl Assn Global	3/11/2008	\$ 20,000.00	5/15/2011	\$ 19,648.40
"	3/12/2008	\$ 15,000.00	5/15/2011	\$ 14,736.30
"	4/16/2008	\$ 22,000.00	5/15/2011	\$ 21,613.24
Government Trust Certificate Zero Cpn	5/29/2008	\$ 10,000.00	5/15/2011	\$ 9,799.20
"	11/28/2007	\$ 28,000.00	5/15/2011	\$ 27,437.76
"	1/4/2008	\$ 19,000.00	5/15/2011	\$ 18,618.48
"	2/25/2008	\$ 20,000.00	5/15/2011	\$ 19,598.40
"	4/1/2008	\$ 11,000.00	5/15/2011	\$ 10,779.12
"	4/22/2008	\$ 17,000.00	5/15/2011	\$ 16,658.64
Strips-Tint-U S Treasury	1/29/2009	\$ 145,000.00	5/15/2011	\$ 143,844.35
"	3/3/2009	\$ 67,000.00	5/15/2011	\$ 66,466.01
Federal Natl Mtg Assn Debs	8/6/2008	\$ 100,000.00	5/19/2011	\$ 103,531.00
Federal Natl Mtg Assn	12/18/2008	\$ 1,000,000.00	7/6/2011	\$ 1,016,250.00
"	2/4/2009	\$ 100,000.00	7/6/2011	\$ 101,625.00
Federal Home Loan Mtg Corp	4/15/2008	\$ 9,000.00	7/15/2011	\$ 8,779.95
"	6/5/2008	\$ 13,000.00	7/15/2011	\$ 12,682.15
"	6/9/2008	\$ 13,000.00	7/15/2011	\$ 12,682.15

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Home Loan Mtg Corp Cpn	3/3/2008	\$ 100,000.00	7/15/2011	\$ 97,555.00
"	3/5/2008	\$ 100,000.00	7/15/2011	\$ 97,555.00
"	3/7/2008	\$ 100,000.00	7/15/2011	\$ 97,555.00
Federal Natl Mtg Assn Cpn	2/14/2008	\$ 31,000.00	7/15/2011	\$ 30,286.07
"	3/18/2008	\$ 42,000.00	7/15/2011	\$ 41,032.74
Federal Home Loan Mtg Corp	1/6/2009	\$ 1,000,000.00	8/11/2011	\$ 1,000,810.00
"	2/6/2009	\$ 400,000.00	8/11/2011	\$ 400,696.00
"	2/9/2009	\$ 300,000.00	8/11/2011	\$ 300,522.00
"	2/9/2009	\$ 55,000.00	8/12/2011	\$ 55,095.70
Agency Strips Ser 1 Int	1/28/2008	\$ 20,000.00	8/12/2011	\$ 19,482.00
"	3/7/2008	\$ 22,000.00	8/12/2011	\$ 21,430.20
Federal Judiciary Office Bldg TR Zero	1/17/2008	\$ 50,000.00	8/15/2011	\$ 48,587.00
"	3/3/2008	\$ 13,000.00	8/15/2011	\$ 12,632.62
"	6/6/2008	\$ 10,000.00	8/15/2011	\$ 9,717.40
Strips-Tint-US Treasury Int	5/21/2008	\$ 100,000.00	8/15/2011	\$ 98,594.00
"	7/9/2008	\$ 10,000.00	8/15/2011	\$ 9,859.40
"	7/10/2008	\$ 100,000.00	8/15/2011	\$ 98,594.00
"	8/5/2008	\$ 20,000.00	8/15/2011	\$ 19,718.80
"	8/6/2008	\$ 10,000.00	8/15/2011	\$ 9,859.40
"	8/11/2008	\$ 10,000.00	8/15/2011	\$ 9,859.40
"	8/12/2008	\$ 100,000.00	8/15/2011	\$ 98,594.00
"	8/13/2008	\$ 100,000.00	8/15/2011	\$ 98,594.00
"	8/19/2008	\$ 10,000.00	8/15/2011	\$ 9,859.40
"	9/5/2008	\$ 11,000.00	8/15/2011	\$ 10,845.34
"	11/12/2008	\$ 100,000.00	8/15/2011	\$ 98,594.00
"	11/12/2008	\$ 84,000.00	8/15/2011	\$ 82,818.96
"	11/12/2008	\$ 50,000.00	8/15/2011	\$ 49,297.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Strips-Tint-US Treasury Int	1/27/2009	\$ 150,000.00	8/15/2011	\$ 147,891.00
"	2/20/2009	\$ 150,000.00	8/15/2011	\$ 147,891.00
"	3/2/2009	\$ 50,000.00	8/15/2011	\$ 49,297.00
"	3/10/2009	\$ 200,000.00	8/15/2011	\$ 197,188.00
"	3/16/2009	\$ 100,000.00	8/15/2011	\$ 98,594.00
"	4/6/2009	\$ 200,000.00	8/15/2011	\$ 197,188.00
"	6/16/2009	\$ 200,000.00	8/15/2011	\$ 197,188.00
Federal Natl Mtg Assn Med	3/7/2008	\$ 39,000.00	9/23/2011	\$ 37,926.72
Financing Corp Fed Bk	1/29/2008	\$ 55,000.00	9/26/2011	\$ 53,392.35
Financing Corp Cpn FICO	2/19/2008	\$ 70,000.00	10/5/2011	\$ 67,930.80
Federal Natl Mtg Assn Med	3/19/2008	\$ 100,000.00	10/8/2011	\$ 97,190.00
"	3/20/2008	\$ 50,000.00	10/8/2011	\$ 48,595.00
"	3/24/2008	\$ 38,000.00	10/8/2011	\$ 36,932.20
Resolution FDG-Ser A - Int - Pmt	3/27/2009	\$ 6,000.00	10/15/2011	\$ 5,888.40
Government Backed Trust-Zero Cpn	4/8/2008	\$ 10,000.00	11/15/2011	\$ 9,687.50
Strips-Tint-U S Treasury	9/16/2008	\$ 100,000.00	11/15/2011	\$ 98,511.00
"	9/18/2008	\$ 200,000.00	11/15/2011	\$ 197,022.00
Strips-Tint-US Treasury	11/14/2008	\$ 100,000.00	11/15/2011	\$ 98,511.00
"	11/14/2008	\$ 60,000.00	11/15/2011	\$ 59,106.60
"	11/25/2008	\$ 100,000.00	11/15/2011	\$ 98,511.00
"	1/29/2008	\$ 250,000.00	11/15/2011	\$ 246,277.50
"	2/23/2009	\$ 200,000.00	11/15/2011	\$ 197,022.00
"	2/26/2009	\$ 100,000.00	11/15/2011	\$ 98,511.00
"	3/4/2009	\$ 30,000.00	11/15/2011	\$ 29,553.30
"	3/17/2009	\$ 220,000.00	11/15/2011	\$ 216,724.20
Federal Natl Mtg Assn Med	3/24/2008	\$ 48,000.00	11/29/2011	\$ 46,490.88

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Financing Cpn Corp	3/23/2009	\$ 10,000.00	11/30/2011	\$ 9,669.20
Financing Corp Cpn Fico Strips	3/19/2009	\$ 10,000.00	12/6/2011	\$ 9,660.90
"	5/12/2009	\$ 100,000.00	12/6/2011	\$ 96,609.00
"	6/4/2009	\$ 200,000.00	12/6/2011	\$ 193,218.00
Federal Natl Mtg Assn Med Term	1/20/2009	\$ 1,000,000.00	1/27/2012	\$ 1,000,940.00
"	1/26/2009	\$ 1,000,000.00	1/27/2012	\$ 1,000,940.00
"	1/28/2009	\$ 10,000.00	1/27/2012	\$ 10,009.40
Agency Strips Ser 1 Int Pmt	4/1/2008	\$ 27,000.00	2/12/2012	\$ 25,834.95
Federal Judiciary Office Bldg TR Zero	3/13/2008	\$ 21,000.00	2/15/2012	\$ 20,073.69
Strips-Tint-U S Treasury Int	7/30/2008	\$ 100,000.00	2/15/2012	\$ 97,417.00
"	8/28/2008	\$ 98,000.00	2/15/2012	\$ 95,468.66
"	11/13/2008	\$ 25,000.00	2/15/2012	\$ 24,354.25
"	11/17/2008	\$ 177,000.00	2/15/2012	\$ 172,428.09
"	12/2/2008	\$ 190,000.00	2/15/2012	\$ 185,092.30
"	12/3/2008	\$ 300,000.00	2/15/2012	\$ 292,251.00
"	12/3/2008	\$ 151,000.00	2/15/2012	\$ 147,099.67
"	12/15/2008	\$ 79,000.00	2/15/2012	\$ 76,959.43
"	1/13/2009	\$ 300,000.00	2/15/2012	\$ 292,251.00
"	1/21/2009	\$ 100,000.00	2/15/2012	\$ 97,417.00
"	1/22/2009	\$ 25,000.00	2/15/2012	\$ 24,354.25
Strips-Tint-US Treasury Int	2/4/2009	\$ 175,000.00	2/15/2012	\$ 170,479.75
"	2/9/2009	\$ 100,000.00	2/15/2012	\$ 97,417.00
"	2/10/2009	\$ 200,000.00	2/15/2012	\$ 194,834.00
"	2/12/2009	\$ 249,000.00	2/15/2012	\$ 242,568.33
"	2/13/2009	\$ 200,000.00	2/15/2012	\$ 194,834.00
"	3/4/2009	\$ 22,000.00	2/15/2012	\$ 21,431.74
"	3/11/2009	\$ 200,000.00	2/15/2012	\$ 194,834.00
"	3/17/2009	\$ 100,000.00	2/15/2012	\$ 97,417.00
"	3/18/2009	\$ 100,000.00	2/15/2012	\$ 97,417.00
"	5/15/2009	\$ 100,000.00	2/15/2012	\$ 97,417.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal National Mtg Assn Med Term	2/19/2009	\$ 500,000.00	2/24/2012	\$ 501,095.00
"	2/20/2009	\$ 400,000.00	2/24/2012	\$ 400,876.00
Federal Natl Mtg Assn Med	3/13/2008	\$ 60,000.00	3/23/2012	\$ 57,268.20
Federal Home Loan Bank Cons	9/3/2008	\$ 10,000.00	5/1/2012	\$ 9,515.00
Federal Natl Mtg Assn Debs	4/2/2008	\$ 40,000.00	5/15/2012	\$ 38,040.80
Govnt Backed Trust Ctf	1/28/2008	\$ 102,000.00	5/15/2012	\$ 96,977.52
Government Trust Zero Cpn	1/29/2008	\$ 10,000.00	5/15/2012	\$ 9,507.60
"	1/28/2008	\$ 44,000.00	5/15/2012	\$ 41,833.44
Strips-Tint-US Treasury	9/10/2008	\$ 50,000.00	5/15/2012	\$ 48,555.00
"	9/12/2008	\$ 100,000.00	5/12/2012	\$ 97,110.00
"	11/10/2008	\$ 100,000.00	5/15/2012	\$ 97,110.00
"	11/18/2008	\$ 50,000.00	5/15/2012	\$ 48,555.00
"	12/4/2008	\$ 150,000.00	5/15/2012	\$ 145,665.00
"	1/13/2009	\$ 200,000.00	5/15/2012	\$ 194,220.00
"	1/20/2009	\$ 150,000.00	5/15/2012	\$ 145,665.00
"	1/21/2009	\$ 100,000.00	5/15/2012	\$ 97,110.00
Strips-Tint-US Treasury	2/2/2009	\$ 100,000.00	5/15/2012	\$ 97,110.00
"	2/3/2009	\$ 150,000.00	5/15/2012	\$ 145,665.00
"	2/5/2009	\$ 100,000.00	5/15/2012	\$ 97,110.00
"	2/6/2009	\$ 100,000.00	5/15/2012	\$ 97,110.00
"	2/9/2009	\$ 100,000.00	5/15/2012	\$ 97,110.00
"	2/10/2009	\$ 100,000.00	5/15/2012	\$ 97,110.00
"	2/11/2009	\$ 180,000.00	5/15/2012	\$ 174,798.00
"	2/17/2009	\$ 70,000.00	5/15/2012	\$ 67,977.00
"	2/24/2009	\$ 200,000.00	5/15/2012	\$ 194,220.00
"	2/27/2009	\$ 90,000.00	5/15/2012	\$ 87,399.00
"	3/4/2009	\$ 38,000.00	5/15/2012	\$ 36,901.80
"	3/10/2009	\$ 200,000.00	5/15/2012	\$ 194,220.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Strips-Tint-US Treasury	3/16/2009	\$ 200,000.00	5/15/2012	\$ 194,220.00
"	3/18/2009	\$ 50,000.00	5/15/2012	\$ 48,555.00
"	5/19/2009	\$ 100,000.00	5/15/2012	\$ 97,110.00
"	5/28/2009	\$ 95,000.00	5/15/2012	\$ 92,254.50
Federal Natl Mtg Assn Med Term	5/26/2009	\$ 190,000.00	6/1/2012	\$ 190,533.90
Financing Corp Cpn FICO	4/2/2009	\$ 200,000.00	6/6/2012	\$ 189,606.00
"	4/21/2009	\$ 150,000.00	6/6/2012	\$ 142,204.50
Federal Home Loan Mtg Corp Notes	6/10/2009	\$ 200,000.00	6/15/2012	\$ 200,876.00
"	6/18/2009	\$ 250,000.00	6/15/2012	\$ 251,095.00
"	6/19/2009	\$ 150,000.00	6/15/2012	\$ 150,657.00
"	6/24/2009	\$ 200,000.00	6/15/2012	\$ 200,876.00
Federal Home Loan Mtg Corp Notes	8/6/2009	\$ 200,000.00	6/15/2012	\$ 200,876.00
"	8/7/2009	\$ 400,000.00	6/15/2012	\$ 401,752.00
"	8/11/2009	\$ 100,000.00	6/15/2012	\$ 100,438.00
Federal Home Loan Bank Const	10/16/2008	\$ 20,000.00	6/25/2012	\$ 20,337.80
Financing Corp Fed Bk Entry	6/26/2009	\$ 52,000.00	8/3/2012	\$ 48,901.84
United States Treas Strip	3/24/2009	\$ 220,000.00	8/15/2012	\$ 211,824.80
Strips - Tint - US Treasury	11/18/2008	\$ 100,000.00	8/15/2012	\$ 96,097.00
"	11/19/2008	\$ 114,000.00	8/15/2012	\$ 109,550.58
"	12/5/2008	\$ 200,000.00	8/15/2012	\$ 192,194.00
"	12/9/2008	\$ 110,000.00	8/15/2012	\$ 105,706.50
"	1/2/2009	\$ 125,000.00	8/15/2012	\$ 120,121.25
"	1/6/2009	\$ 210,000.00	8/15/2012	\$ 201,803.70
"	1/15/2009	\$ 100,000.00	8/15/2012	\$ 96,097.00
"	1/23/2009	\$ 130,000.00	8/15/2012	\$ 124,926.10
"	2/2/2009	\$ 100,000.00	8/15/2012	\$ 96,097.00
"	2/18/2009	\$ 95,000.00	8/15/2012	\$ 91,292.15
"	3/2/2009	\$ 30,000.00	8/15/2012	\$ 28,829.10

		DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Strips - Tint - US Treasury		3/5/2009	\$ 38,000.00	8/15/2012	\$ 36,516.86
"		3/19/2009	\$ 108,000.00	8/15/2012	\$ 103,784.76
"		5/14/2009	\$ 100,000.00	8/15/2012	\$ 96,097.00
"		5/15/2009	\$ 93,000.00	8/15/2012	\$ 89,370.21
"		5/26/2009	\$ 100,000.00	8/15/2012	\$ 96,097.00
"		5/28/2009	\$ 200,000.00	8/15/2012	\$ 192,194.00
"		6/3/2009	\$ 100,000.00	8/15/2012	\$ 96,097.00
"		6/9/2009	\$ 100,000.00	8/15/2012	\$ 96,097.00
"		6/25/2009	\$ 100,000.00	8/15/2012	\$ 96,097.00
"		7/10/2009	\$ 100,000.00	8/15/2012	\$ 96,097.00
Strips - Tint - US Treasury		7/22/2009	\$ 94,000.00	8/15/2012	\$ 90,331.18
"		11/13/2009	\$ 300,000.00	8/15/2012	\$ 288,291.00
Financing Corp Cpn Fico Strips		8/17/2009	\$ 20,000.00	9/7/2012	\$ 18,732.40
Federal National Mtg Assn Med		8/25/2009	\$ 12,000.00	9/23/2012	\$ 11,204.76
Financing Corp Fed Book		8/5/2009	\$ 20,000.00	10/6/2012	\$ 18,675.40
"		8/17/2009	\$ 20,000.00	10/6/2012	\$ 18,675.40
Federal Home Loan Med Term		4/6/2009	\$ 250,000.00	10/15/2012	\$ 250,225.00
"		4/7/2009	\$ 200,000.00	10/15/2012	\$ 200,180.00
"		4/8/2009	\$ 100,000.00	10/15/2012	\$ 100,090.00
"		4/8/2009	\$ 100,000.00	10/15/2012	\$ 100,090.00
Federal Home Loan Mtg Freddie		4/13/2009	\$ 200,000.00	10/15/2012	\$ 200,180.00
"		4/14/2009	\$ 100,000.00	10/15/2012	\$ 100,090.00
Federal Home Loan Mtg Corp		4/21/2009	\$ 30,000.00	10/15/2012	\$ 30,027.00
"		4/22/2009	\$ 95,000.00	10/15/2012	\$ 95,085.50
"		4/23/2009	\$ 100,000.00	10/15/2012	\$ 100,090.00
"		4/24/2009	\$ 200,000.00	10/15/2012	\$ 200,180.00
Federal Home Loan Bank Const		10/9/2009	\$ 500,000.00	10/19/2012	\$ 499,375.00
"		10/13/2009	\$ 200,000.00	10/19/2012	\$ 199,750.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Financing Corp Fed Bank Entry	8/13/2009	\$ 25,000.00	11/2/2012	\$ 23,278.50
Financing Corp Cpn Fico Strips	9/23/2009	\$ 102,000.00	11/11/2012	\$ 94,884.48
Federal Natl Mtg Assn Debs	4/14/2008	\$ 31,000.00	11/15/2012	\$ 28,762.73
"	9/8/2009	\$ 22,000.00	11/15/2012	\$ 20,412.26
Government Backed Trust Zero Cpn	8/1/2008	\$ 10,000.00	11/15/2012	\$ 9,298.30
Strips - Tint - US Treasury	11/13/2008	\$ 95,000.00	11/15/2012	\$ 90,623.35
"	12/16/2008	\$ 100,000.00	11/15/2012	\$ 95,393.00
"	12/17/2008	\$ 100,000.00	11/15/2012	\$ 95,393.00
"	12/22/2008	\$ 100,000.00	11/15/2012	\$ 95,393.00
Strips - Tint - US Treasury	12/24/2008	\$ 100,000.00	11/15/2012	\$ 95,393.00
"	1/8/2009	\$ 200,000.00	11/15/2012	\$ 190,786.00
"	1/12/2009	\$ 23,000.00	11/15/2012	\$ 21,940.39
"	1/26/2009	\$ 51,000.00	11/15/2012	\$ 48,650.43
"	3/6/2009	\$ 25,000.00	11/15/2012	\$ 23,848.25
"	3/20/2009	\$ 200,000.00	11/15/2012	\$ 190,786.00
"	3/23/2009	\$ 28,000.00	11/15/2012	\$ 26,710.04
"	3/30/2009	\$ 100,000.00	11/15/2012	\$ 95,393.00
"	5/18/2009	\$ 100,000.00	11/15/2012	\$ 95,393.00
"	10/1/2009	\$ 100,000.00	11/15/2012	\$ 95,393.00
Federal Natl Mtg Assn Notes	5/8/2009	\$ 390,000.00	11/19/2012	\$ 390,366.60
Financing Corp Cpn Fico Strips	8/25/2009	\$ 14,000.00	11/30/2012	\$ 12,989.06
"	7/22/2009	\$ 20,000.00	12/6/2012	\$ 18,539.40
"	11/30/2009	\$ 50,000.00	12/6/2012	\$ 46,348.50
Federal Home Loan Mtg Corp	12/24/2009	\$ 400,000.00	1/9/2013	\$ 393,124.00
"	12/29/2009	\$ 300,000.00	1/9/2013	\$ 294,843.00
Federal Natl Mtg Assn Deb	8/21/2009	\$ 49,000.00	2/7/2013	\$ 44,856.07

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Financing Corp Cpn Fico Strips	9/28/2009	\$ 25,000.00	2/8/2013	\$ 22,952.25
"	12/30/2009	\$ 35,000.00	2/8/2013	\$ 32,133.15
Agency Strips-Ser 1-Int Pmt	7/28/2009	\$ 34,000.00	2/12/2013	\$ 31,233.08
"	12/29/2009	\$ 17,000.00	2/12/2013	\$ 15,616.54
Federal Home Loan Mtg Corp	8/10/2009	\$ 35,000.00	2/12/2013	\$ 35,183.05
ETR-Ser 10 Cpn Int Pmt	12/22/2009	\$ 25,000.00	2/15/2013	\$ 23,369.25
"	12/28/2009	\$ 38,000.00	2/15/2013	\$ 35,521.26
Strips-Tint-U S Treasury	3/6/2009	\$ 48,000.00	2/15/2013	\$ 45,259.20
"	3/23/2009	\$ 100,000.00	2/15/2013	\$ 94,290.00
"	3/24/2009	\$ 100,000.00	2/15/2013	\$ 94,290.00
"	10/13/2009	\$ 150,000.00	2/15/2013	\$ 141,435.00
"	11/12/2009	\$ 200,000.00	2/15/2013	\$ 188,580.00
"	11/13/2009	\$ 100,000.00	2/15/2013	\$ 94,290.00
"	11/16/2009	\$ 200,000.00	2/15/2013	\$ 188,580.00
"	11/16/2009	\$ 100,000.00	2/15/2013	\$ 94,290.00
"	11/1/2309	\$ 100,000.00	2/15/2013	\$ 94,290.00
"	11/30/2009	\$ 100,000.00	2/15/2013	\$ 94,290.00
Federal Home Loan Mtg Corp	12/9/2009	\$ 50,000.00	3/15/2013	\$ 45,562.50
Federal Natl Mtg Assn	7/27/2009	\$ 500,000.00	7/29/2013	\$ 500,940.00
"	7/29/2009	\$ 1,000,000.00	7/29/2013	\$ 1,001,880.00
Federal Home Loan Bank Cons	7/23/2009	\$ 495,000.00	8/5/2013	\$ 496,237.50
Strips-Tint-US Treasury Int	1/5/2009	\$ 100,000.00	8/15/2013	\$ 92,526.00
"	1/27/2009	\$ 100,000.00	8/15/2013	\$ 92,526.00
Federal Home Loan Bank Cons	11/20/2009	\$ 500,000.00	12/17/2013	\$ 494,845.00
"	12/4/2009	\$ 170,000.00	12/24/2013	\$ 168,672.30

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Natl Mtg Assn	12/24/2009	\$ 500,000.00	12/24/2009	\$ 498,750.00
Federal Home Loan Bank Mtg Corp	7/30/2009	\$ 400,000.00	1/7/2014	\$ 400,452.00
Federal Home Loan Bank Cons	10/22/2009	\$ 210,000.00	10/29/2014	\$ 208,622.40
Federal Home Loan Bank Cons	12/14/2009	\$ 200,000.00	12/24/2014	\$ 196,062.00
"	12/29/2009	\$ 300,000.00	12/24/2014	\$ 294,093.00
Federal Natl Mtg Assn Med Term	5/28/2009	\$ 100,000.00	11/28/2016	\$ 97,531.00
TOTAL		\$ 38,162,000.00		\$ 37,574,841.83

RATES OF RETURN SUMMARY

IN PERCENT

PERIODS GREATER THAN ONE YEAR ARE ANNUALIZED

12/31/08 – 12/31/09

AGGREGATE

**TENNESSEE LIFE &
HEALTH TOTAL FUND**

* 1.466%

90-DAY T BILLS

.14%

1 YR TREASURY INDEX

.47%

2 YR TREASURY INDEX

.96%

FED FUNDS

.16937%

3 YR TREASURY INDEX

1.43%

CITIGROUP GOVT/CORP 1-3 YEAR INDEX

.72%

1.20%

+ .266% ACCRUED INTEREST

1.466% TOTAL RETURN FOR YTD 2009

**TENNESSEE LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

**AUDITED FINANCIAL STATEMENTS
and
OTHER FINANCIAL INFORMATION**

December 31, 2009 and 2008

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

AUDITED FINANCIAL STATEMENTS and OTHER FINANCIAL INFORMATION

December 31, 2009 and 2008

	<u>Page</u>
Report of Independent Auditors.....	1
 <u>AUDITED FINANCIAL STATEMENTS</u>	
Statements of Cash Receipts and Disbursements, and Changes in Fund Balance.....	2
Notes to Financial Statements	3
 <u>OTHER FINANCIAL INFORMATION</u>	
Report of Independent Auditors on Other Financial Information.....	11
Combining Statements of Cash Disbursements:	
Year Ended December 31, 2009	12
Year Ended December 31, 2008	13

FAULKNER MACKIE & COCHRAN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

One American Center
3100 West End Avenue, Suite 700
Nashville, Tennessee 37203-1372

Telephone: (615) 292-3011
Fax: (615) 269-9047
Website: www.fmccpa.com

Report of Independent Auditors

Board of Directors
Tennessee Life and Health Insurance
Guaranty Association
Nashville, Tennessee

We have audited the accompanying statements of cash receipts and disbursements, and changes in fund balance of the Tennessee Life and Health Insurance Guaranty Association (the Association) for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements have been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash receipts and disbursements, and changes in fund balance of the Association for the years ended December 31, 2009 and 2008, on the basis of accounting described in Note 1.

Faulkner Mackie & Cochran, P.C.

April 12, 2010

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS, AND CHANGES IN FUND BALANCE

	Year Ended December 31	
	2009	2008
Receipts		
Assessments:		
Class A	\$ 150	\$ 399,413
Class B	0	0
Total assessments	<u>150</u>	<u>399,413</u>
Estate settlements:		
Life	5,680	789,606
Annuity	499,323	414,963
Health	<u>126,938</u>	<u>763,108</u>
Total estate settlements	<u>631,941</u>	<u>1,967,677</u>
Interest	765,384	2,152,858
Premiums received	<u>0</u>	<u>137,598</u>
Total receipts	<u>1,397,475</u>	<u>4,657,546</u>
Disbursements		
Claims paid:		
Life	983,398	1,472,483
Annuity	322,133	314,427
Health	<u>133,071</u>	<u>1,727,156</u>
Total claims paid	<u>1,438,602</u>	<u>3,514,066</u>
Administrative fees related to specific insolvencies	<u>99,585</u>	<u>219,417</u>
General administrative expenses:		
Dues	53,505	48,907
Outside services	102,130	85,626
Other	<u>11,707</u>	<u>20,732</u>
Total general administrative expenses	<u>167,342</u>	<u>155,265</u>
Total disbursements	<u>1,705,529</u>	<u>3,888,748</u>
Excess (deficit) of receipts over disbursements	\$ (308,054)	\$ 768,798
Fund balance at beginning of year	38,692,653	38,445,930
Change in unrealized value of investments	<u>(319,084)</u>	<u>(522,075)</u>
Fund balance at end of year (Note 2)	<u>\$ 38,065,515</u>	<u>\$ 38,692,653</u>

See accompanying notes to financial statements.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background: The Tennessee Life and Health Insurance Guaranty Association (the "Association") was created by the Tennessee legislature, effective July 1, 1989, to pay the claims and other contractual obligations on existing policies of insolvent life and health insurance companies. Members of the Association include all insurers licensed to write life and health insurance in Tennessee. The Association has no employees; therefore, the Board of Directors has appointed independent contractors to assist with routine operational matters.

Basis of Accounting and Reporting: It is the policy of the Association to prepare its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Under the cash receipts and disbursements basis of accounting, income is recognized when received and expenses are recognized when paid. Under GAAP, income is recognized when earned and expenses are recognized when incurred. The financial effect of this difference and any other difference from GAAP has not been determined. Receipts and disbursements related to sales and purchases of investments net to zero and are not reflected in the accompanying financial statements. The carrying amounts of financial instruments, including cash, cash equivalents and investments, approximate fair value.

Assessments: The Association may levy two types of assessments. Class A assessments are levied to cover the general operating expenses of the Association. The most recent Class A assessments were levied during 2008 and covered two years (2006 and 2007). Class B assessments are levied to cover anticipated claims, legal and administrative expenses related to specific insolvencies. There were no Class B assessments levied during 2009 and 2008, however, management plans to levy Class B health assessments totaling \$2.75 million during 2010.

Income Taxes: The Association operates as a tax-exempt organization under section 501(c)(6) of the Internal Revenue Code. In accordance with requirements of the Income Taxes Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification, the Association reviews tax positions taken or expected to be taken in a tax return to determine whether or not there is uncertainty that the tax position will ultimately be sustained upon examination. This review did not result in identification of any uncertain tax positions at December 31, 2009 or 2008.

Subsequent Events: Management has evaluated subsequent events through April 12, 2010, the date the financial statements were available to be issued.

Reclassifications: Certain reclassifications have been made to prior year financial statements to conform to the current year presentation. These reclassifications had no effect on the excess (deficit) of receipts over disbursements as previously reported.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 – FUND BALANCE

The Association's fund balance consists of cash, cash equivalents and investments as follows:

	<u>Class A</u>	<u>Class B</u>	<u>Total</u>
At December 31, 2009:			
Cash at First Tennessee Bank	\$ 145,873	\$ 107,910	\$ 253,783
Morgan Stanley Smith Barney:			
Cash	0	0	0
Cash equivalents	120,781	15,618	136,399
Government bonds	0	37,675,333	37,675,333
Total at Morgan Stanley Smith Barney	<u>120,781</u>	<u>37,690,951</u>	<u>37,811,732</u>
Total cash, cash equivalents and investments	<u>\$ 266,654</u>	<u>\$ 37,798,861</u>	<u>\$ 38,065,515</u>
At December 31, 2008:			
Cash at First Tennessee Bank	\$ 312,411	\$ 150,448	\$ 462,859
Smith Barney:			
Cash	0	1,077,801	1,077,801
Cash equivalents	120,367	10,769,087	10,889,454
Government bonds	0	26,262,539	26,262,539
Total at Smith Barney	<u>120,367</u>	<u>38,109,427</u>	<u>38,229,794</u>
Total cash, cash equivalents and investments	<u>\$ 432,778</u>	<u>\$ 38,259,875</u>	<u>\$ 38,692,653</u>

Cash equivalents include highly-liquid, interest-bearing instruments with an original maturity of three months or less at the time of purchase. Cash equivalents are recorded at cost, which approximates fair value. Investments primarily include government bonds and are carried at fair value as established by the Association's broker, Morgan Stanley Smith Barney, utilizing Bloomberg financial services.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 2 – FUND BALANCE - Continued

Comparative aggregate values for the Association's investments, including gross unrealized gains and losses, are summarized as follows:

	<u>Original Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
At December 31, 2009:				
Government bonds	\$ 37,176,664	\$ 467,013	\$ 68,834	\$37,574,843
Accrued interest on zero coupon bonds				<u>100,490</u>
Total				<u><u>\$37,675,333</u></u>
At December 31, 2008:				
Government bonds	\$ 25,444,787	\$ 709,530	\$ 15,327	\$26,138,990
Accrued interest on zero coupon bonds				<u>123,549</u>
Total				<u><u>\$26,262,539</u></u>

The weighted average maturity for investments at December 31, 2009 and 2008 was 27 and 29 months, respectively.

The Association monitors its investment portfolio to identify securities that have been in a continuous unrealized loss position for at least twelve months, or that have a significant unrealized loss relative to cost, in considering whether such decline in fair value should be recognized as an "other-than-temporary" impairment. For the debt securities in the Association's portfolio, factors considered in this evaluation include whether the Association intends to sell the security or will, more-likely-than-not, have to sell the security before its fair value is recovered. At December 31, 2009 and 2008, the Association has determined that it intends to hold the securities until maturity or call date and that there is sufficient liquidity to preclude the need to sell a security before fair value has been recovered. As a result, recognition of an "other-than-temporary" impairment loss was unnecessary.

As indicated in Note 1, the Association, having assumed policyholder obligations of insolvent insurers, is a creditor of the estates of such insurers. Accordingly, cash and investments primarily represent the net accumulation of distributions received from the estates of insolvent insurers over policyholder obligations paid. These funds may be used to fund future insolvency expenses or refunded to members who paid Class B assessments to cover policyholder obligations.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs are based on market data from independent sources, while unobservable inputs reflect the management's view of market assumptions in the absence of observable market information. In accordance with requirements of the Fair Value Topic of the FASB Accounting Standards Codification, all cash equivalents and investments of the Association that are carried at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted market prices for similar assets or liabilities in active markets; quoted prices by independent pricing services for identical or similar assets or liabilities in markets that are not active; and valuations, using models or other valuation techniques, that use observable market data. All significant inputs are observable, or derived from observable information in the marketplace, or are supported by observable levels at which transactions are executed in the market place.

Level 3: Instruments that use non-binding broker quotes or model driven valuations that do not have observable market data.

The following table presents the fair value measurements for each major category of cash equivalents and investments that are measured on a recurring basis:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	Fair Value
At December 31, 2009:				
Cash equivalents	\$ 136,399	\$ 0	\$ 0	\$ 136,399
Government bonds	<u>0</u>	<u>37,675,333</u>	<u>0</u>	<u>37,675,333</u>
Total	<u>\$ 136,399</u>	<u>\$ 37,675,333</u>	<u>\$ 0</u>	<u>\$37,811,732</u>
At December 31, 2008:				
Cash equivalents	\$ 10,889,454	\$ 0	\$ 0	\$10,889,454
Government bonds	<u>0</u>	<u>26,262,539</u>	<u>0</u>	<u>26,262,539</u>
Total	<u>\$ 10,889,454</u>	<u>\$ 26,262,539</u>	<u>\$ 0</u>	<u>\$37,151,993</u>

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 4 – ESTATE SETTLEMENTS

During 2009 and 2008, estate settlements were received from the following insolvencies:

	<u>2009</u>	<u>2008</u>
Benicorp Insurance Company	\$ 0	\$ 526,186
Diamond Benefits Life/Life Assurance Company of Pennsylvania	0	34,111
Executive Life Insurance Company	9,311	142,437
First National Life Insurance Company	0	941,870
Guarantee Security Life Insurance Company	0	408
International Financial Services Life Insurance Company	0	22,714
Kentucky Central Life Insurance Company	0	20,979
Legion/Villanova Insurance Company	0	618
Life and Health Insurance Company of America	122,335	236,182
Midwest Life Insurance Company	0	42,050
National Heritage Life Insurance Company	495,692	0
Reliance Insurance Company	3,938	0
Shelby Casualty Insurance Company	665	122
	<u>\$ 631,941</u>	<u>\$ 1,967,677</u>

NOTE 5 – CONTINGENCIES

At times, cash balances in the Association's bank accounts may exceed FDIC insurance limits.

The Association is involved in litigation pursuant to matters which arise relative to the Association's responsibilities to settle or otherwise resolve asserted and unasserted claims against insolvent insurers. The Association has also been informed of the possibility of other companies becoming "insolvent insurers" and of various potential covered claims, the magnitude of which cannot be currently estimated until such claims are formally asserted against the Association. The effects, if any, of such claims and corresponding assessments will be reflected in the financial statements of the Association when paid or received.

The Patient Protection and Affordable Care Act (the "Act") was signed into law by the President of the United States on March 23, 2010. This legislation will change the national health care landscape for years to come. As a result, management believes the Act will impact insurance companies that provide health coverage, once the changes specified in the Act are implemented. However, the ultimate impact on the Association and its member companies is not currently determinable.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 6 – INSOLVENCIES

Since the creation of the Association, the Board of Directors has dealt with the following 49 insolvencies:

<u>Company Name</u>	<u>Year of Insolvency</u>
Medical Savings Insurance Company	2009
Lincoln Memorial Life Insurance Company	2008
Benicorp Insurance Company	2007
Shelby Casualty Insurance Company	2006
States General Life Insurance Company	2005
Life and Health Insurance Company of America	2004
London Pacific Life and Annuity Company	2004
Legion/Villanova Insurance Company	2002
Reliance Insurance Company	2001
American Chambers Life Insurance Company	2000
National Affiliated Investors Insurance Company	2000
First National Life Insurance Company of America	1999
Franklin American Life Insurance Company	1999
International Financial Services Life Insurance Company	1999
Settlers Life Insurance Company	1999
Statesman National Life Insurance Company	1999
Centennial Life Insurance Company	1998
American Western Life Insurance Company	1997
First National Life Insurance Company	1997
Florida Life Insurance Company	1997
Coastal States Life Insurance Company	1996
National American Life Insurance Company	1996
National Heritage Life Insurance Company	1995
Confederation Life Insurance Company	1994
Integrated Resources Life Insurance Company	1994
Kentucky Central Life Insurance Company	1994
Mutual Benefit Life Insurance Company	1994
Old Colony Life Insurance Company	1994
Pacific Standard Life Insurance Company	1994
Summit National Life Insurance Company	1994
American Integrity Insurance Company	1993
Andrew Jackson Life Insurance Company	1993
Atlantic and Pacific Life Insurance Company of America	1993
Georgia Life and Health Insurance Company	1993
Investment Life Insurance Company of America	1993
New Jersey Life Insurance Company	1993
Executive Life Insurance Company	1991
George Washington Life Insurance Company	1991
Guarantee Security Life Insurance Company	1991

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2009 and 2008

NOTE 6 – INSOLVENCIES – Continued

Inter-American Insurance Company of Illinois	1991
Legacy Life Insurance Company	1991
Midwest Life Insurance Company	1991
Mutual Security Life Insurance Company	1991
Underwriters Life Insurance Company	1991
United Equitable Life Insurance Company	1991
Life of Indiana Insurance Company	1990
Amalgamated Labor Life Insurance Company	1989
American Sun Life Insurance Company	1989
Diamond Benefits Life/Life Assurance Company of Pennsylvania	1988

OTHER FINANCIAL INFORMATION

FAULKNER MACKIE & COCHRAN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

One American Center
3100 West End Avenue, Suite 700
Nashville, Tennessee 37203-1372

Telephone: (615) 292-3011
Fax: (615) 269-9047
Website: www.fmccpa.com

Report of Independent Auditors On Other Financial Information

To the Board of Directors
Tennessee Life and Health Insurance
Guaranty Association
Nashville, Tennessee

Our report on our audits of the statements of cash receipts and disbursements, and changes in fund balance of the Tennessee Life and Health Insurance Guaranty Association for the years ended December 31, 2009 and 2008, appears on page 1 of this document. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole.

The accompanying combining statements of cash disbursements for the years ended December 31, 2009 and 2008, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Faulkner Mackie & Cochran, P.C.

April 12, 2010

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

COMBINING STATEMENT OF CASH DISBURSEMENTS

Year ended December 31, 2009

	General and Administrative Account	Executive Life Insurance Company (CA)	Life and Health Insurance Company of America	Franklin American Life Insurance Company	Benicorp Insurance Company	Lincoln Memorial Insurance Company	Other Insolvency Accounts	Total
Claims paid:								
Life	\$ 0	\$ 483,398	\$ 0	\$ 0	\$ 0	\$ 500,000	\$ 0	\$ 983,398
Annuity	0	322,266	0	0	0	0	(133)	322,133
Health	0	0	93,256	0	37,353	0	2,462	133,071
Total claims paid	0	805,664	93,256	0	37,353	500,000	2,329	1,438,602
Administrative fees related to specific insolvencies	0	15,279	3,059	19,770	940	6,842	53,695	99,585
General administrative expenses:								
Dues	53,505	0	0	0	0	0	0	53,505
Outside services	102,130	0	0	0	0	0	0	102,130
Other	11,707	0	0	0	0	0	0	11,707
Total general administrative expenses	167,342	0	0	0	0	0	0	167,342
Total disbursements	\$ 167,342	\$ 820,943	\$ 96,315	\$ 19,770	\$ 38,293	\$ 506,842	\$ 56,024	\$ 1,705,529

TENNESSEE LIFE AND HEALTH INSURANCE **GUARANTY ASSOCIATION**

COMBINING STATEMENT OF CASH DISBURSEMENTS

Year ended December 31, 2008

	General and Administrative Account	Executive Life Insurance Company (CA)	Life and Health Insurance Company of America	Franklin American Life Insurance Company	Benicorp Insurance Company	Lincoln Memorial Insurance Company	Other Insolvency Accounts	Total
Claims paid:								
Life	\$ 0	\$ 471,441	\$ 0	\$ 1,642	\$ 0	\$ 999,400	\$ 0	\$ 1,472,483
Annuity	0	314,294	0	0	0	0	133	314,427
Health	0	0	159,544	0	1,560,984	0	6,848	1,727,156
Total claims paid	0	785,735	159,544	1,642	1,560,984	999,400	6,781	3,514,086
Administrative fees related to specific insolvencies	0	9,867	8,418	43,642	24,190	68,166	65,134	219,417
General administrative expenses:								
Dues	48,907	0	0	0	0	0	0	48,907
Outside services	85,626	0	0	0	0	0	0	85,626
Other	20,732	0	0	0	0	0	0	20,732
Total general administrative expenses	155,265	0	0	0	0	0	0	155,265
Total disbursements	\$ 155,265	\$ 795,602	\$ 167,962	\$ 45,284	\$ 1,585,154	\$ 1,067,566	\$ 71,915	\$ 3,888,748

2010 ANNUAL REPORT

OF THE

**TENNESSEE LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

TO THE

DEPARTMENT OF COMMERCE AND INSURANCE

OF THE

STATE OF TENNESSEE

Submitted May 1, 2011

TABLE OF CONTENTS

1.	Annual Report.....	Tab 1
2.	Insolvency Status Reports.....	Tab 2
3.	Minutes of Meetings.....	Tab 3
4.	Summary of Invested Assets as of December 31, 2010.....	Tab 4
5.	MorganStanley SmithBarney Summary of Return on Investments.....	Tab 5
6.	Faulkner Mackie & Cochran, P.C. Audited Statement.....	Tab 6

**TENNESSEE LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION**

1200 ONE NASHVILLE PLACE
150 4TH AVENUE NORTH
NASHVILLE, TENNESSEE 37219-2433
(615) 242-8758
FAX (615) 256-8197

May 1, 2011

ANNUAL REPORT FOR 2010

The following is a report of activities of the Tennessee Life and Health Insurance Guaranty Association (the "Association") for the year 2010.

1. **FINANCIAL REPORT AND AUDIT**

An audited statement prepared by Faulkner Mackie & Cochran, P.C. for the year 2010 is attached to the end of this report.

2. **ASSESSMENTS**

No Class A Assessments were levied for 2010. A Class B Health Assessment was levied in June 2010 in the amount of \$2,750,000.00 to cover policyholder expenses of Benicorp Insurance Company and States General Life Insurance Company.

3. **NATIONAL ORGANIZATION OF LIFE AND HEALTH GUARANTY ASSOCIATIONS**

The company continued its participation in the National Organization of Life and Health Guaranty Associations ("NOLHGA") in 2010. NOLHGA is an essential aspect of the handling of multi-state insolvencies. The Association's 2010 membership dues were \$53,355.00. In addition, the Association paid its proportionate share of NOLHGA expenses with regard to various insolvencies and expenses associated with the preparation of the NOLHGA assessment data survey.

4. **INSOLVENCIES**

Status reports on insolvent companies with open estates that had material activity in 2010 are attached.

5. **ANNUAL MEETING, BOARD OF DIRECTORS MEETINGS**

The Association held its annual meeting on October 13, 2010, at which time members of the Board and Directors and officers were elected, and the Administrator appointed. Minutes of the meeting are attached.

The Board of Directors also met on February 12, 2010. Minutes of that meeting are also attached.

The Audit Committee met on February 22, 2010, April 12, 2010, and November 23, 2010. Minutes of those meetings are also attached.

6. **BANKING/INVESTMENTS**

The Association has the following accounts with First Tennessee Bank: (1) Class A Checking account; (2) Class A Savings account; and (3) Class B Checking account. Because of the significant amount of guaranty association assessment funds, the Association has maintained its account with MorganStanley SmithBarney. The funds are invested in money market accounts or U.S. Government and federal agency bonds until funds are needed to pay claims or expenses. Attached is the Summary of Invested Assets as of December 31, 2010, prepared by the Association and a Rates of Return Summary prepared by MorganStanley SmithBarney outlining the yield on investments for the year 2010, and comparing the yield with investment indices.

7. **LEGISLATION**

Legislation was enacted in 2010 to update Association coverage limits so that they are now consistent with the current NAIC model. The legislation also included other technical changes to conform Tennessee law to the model life and health insurance guaranty association act.

STATUS REPORT

As of December 31, 2010

Company: AMERICAN CHAMBERS LIFE INSURANCE COMPANY (OH)
Status: In Liquidation
Insolv/Rehab Date: May 8, 2000

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:	\$3,600,000.00	01/22/04	09/24/04
Total:			

CLAIMS PAID

Life Claims:	Reinsurance:
Annuity Claims:	Reinsurance:
Health Claims:	Reinsurance:

\$3,388,623.05

ADMINISTRATIVE EXPENSES

Life A/E:	\$
Annuity A/E:	\$
Health A/E:	\$ 580,608.05

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist:

\$ 518,803.13 \$ 608,344.06

AMERICAN CHAMBERS LIFE INSURANCE COMPANY

COMMENTS

American Chambers was placed into rehabilitation on March 13, 2000. A liquidation order was issued on May 8, 2000. The NOLHGA Task Force and the receiver negotiated a service agreement with Antares Management Solutions, a third-party administrator, to process claims for participating guaranty associations. Subsequently, the Task Force and the receiver also negotiated an early access agreement.

On April 17, the receiver informed the Task Force that American Chambers had begun paying the approximately 22,000 processed, but unpaid, claims on April 14. There was a backlog of approximately 400,000 unpaid claims, only a portion of which were GA claims. The majority of the backlog belonged to Continental General or two other companies with which American Chambers had a fronting agreement.

The service agreement with Antares was approved on April 24. On May 8, the court also approved several other agreements, including the Indemnity Reinsurance Agreement with Continental General Insurance Company, under which Continental General will reinsure individual association and small group health insurance and related life insurance issued from and after January 1, 2000, and all individual association health insurance and related life insurance issued through December 31, 1999 under certain policy forms in certain states.

An arrangement was made with Merck-Medco for payment of drug card claims; the drug card program provides significant benefits to guaranty associations in reducing costs.

Collected health premium was forwarded to the individual guaranty associations in March, 2001.

An omnibus proof of claim was filed on behalf of the affected guaranty associations by May 8, 2001.

By September 2001, policyholder claims declined to a point where monthly processing could be implemented. At the end of November 2001, the service agreement with Antares ended and LaShelle, Coffman & Boles began administering the remaining business. In early 2002, LCB developed a plan for archiving claims and policy-related data contained in the Antares system before the system is shut down and the data lost. This information was distributed to each guaranty association in August, 2002 so each GA could begin evaluating and processing their state's claims beginning September 1, 2002.

On March 28, 2002, the NOLHGA task force entered into an assumption reinsurance agreement with Madison National to assume the small number of life policies in the estate; Tennessee does not have any of these policies. Work continues on asset recovery and completion of early access agreements.

In May 2002, the liquidator filed a complaint in the Ohio liquidation court against American Chambers' former officers, directors and actuary. The liquidator also worked to recover the value of American Chambers' interest in certain real estate assets in Chicago and other assets.

In July 2002, TLHIGA received approximately \$35,000 from the estate which represents claim refunds, subrogation recoveries, voided checks, unused drug card payments and collected premiums. The Association received another like distribution in November 2002.

In 2003, the liquidator filed new litigation against American Chambers' former auditor and legal counsel.

In June 2007 the task force reported that the estate received approximately \$17 million from the sale of a parcel of Chicago real estate. This will be distributed to the Guaranty Associations.

On January 16, 2008, the American Chambers estate filed a Motion for Approval of Liquidator's Release of Premiums to Insurance Guaranty Associations. These funds represent premiums for post-liquidation coverage periods that were initially collected by the liquidator. The Association received their premium refund check in the amount of \$134,902.04 on January 31, 2008.

On December 15, 2009, NOLHGA received \$12.8 million distribution of estate assets from the receiver of the estate. The Association received \$571,010.00 from this distribution on January 13, 2010.

STATUS REPORT

As of December 31, 2010

Company: BENICORP INSURANCE COMPANY (BIC)
Status: In Liquidation
Insolv/Rehab Date: October 5, 2007

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:	\$2,500,000.00	10/12/2009	06/30/2010
Total:			

CLAIMS PAID

Life Claims:	\$ 10,000.00	Reinsurance:
Annuity Claims:		Reinsurance:
Health Claims:	\$ 2,969,869.71	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 86.55
Annuity A/E:	
Health A/E:	\$ 44,107.45

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist: \$1,108,150.18

BENICORP INSURANCE COMPANY

COMMENTS

Benicorp Insurance Company is an Indiana based company which was ordered into liquidation on October 5, 2007. This company primarily dealt in group health insurance plans. The receiver developed a plan under which United Healthcare offered replacement coverage. Claims paid by the guaranty associations were handled under and arrangement with a TPA.

On September 12, 2008 the association received a check in the amount of \$116,751.61 which was a deposit that had previously been held by the State of Tennessee.

On October 1, 2008 the Association received a check from the estate for policy-level claims in the amount of \$294,239.80.

Claims processing ceased in 2009 and in August 2010, the Association received an estate distribution of \$581,964.00.

STATUS REPORT

As of December 31, 2010

Company: EXECUTIVE LIFE INSURANCE COMPANY (CA)
Status: In Liquidation
Insolv/Rehab Date: December 6, 1991

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:	\$ 520,000.00	12/30/91	Not called
	\$ 700,000.00	04/24/92	05/18/92
	\$ 1,150,000.00	10/28/92	12/09/92
	\$ 2,580,000.00	05/03/94	09/09/94
	\$10,320,000.00	10/27/94	12/22/94
Annuity:	\$ 420,000.00	12/30/91	Not called
	\$ 600,000.00	04/24/92	05/18/92
	\$ 2,850,000.00	10/28/92	12/09/92
	\$ 1,720,000.00	05/03/94	09/09/94
	\$ 6,880,000.00	10/27/94	12/22/94
Total:	\$26,800,000.00		

CLAIMS PAID

Life Claims:	\$ 20,734,765.91	Reinsurance:
Annuity Claims:	\$ 12,854,821.80	Reinsurance:
Health Claims:		Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 341,962.89
Annuity A/E:	\$ 234,836.11
Health A/E:	

RECEIPTS

Life Premium:		Estate Dist:	\$924,886.77
Annuity Premium:	\$ 24,949.98	Estate Dist:	\$902,615.50
Health Premium:		Estate Dist:	

EXECUTIVE LIFE INSURANCE COMPANY

COMMENTS

The company was a large issuer of life insurance and annuities. Its products were aggressively marketed and included high interest rate assumptions. When the junk bond market crashed in the early 1990s, the company encountered financial difficulty and was placed in liquidation in 1991. The Conservation Court approved a rehabilitation plan in 1995. Policyholders who elected into the Rehab Plan had coverage transferred to the new company, Aurora National Life Insurance Company. The guaranty associations funded the deficiency in assets to support this transfer of liabilities.

The Association's installments were initially estimated to be \$28 million. On June 30, 1995, the Board approved participation in a Guaranteed Issue Agreement (Article 22 Amendment) to meet additional obligations of affected policyholders. The MPC Executive Committee on June 27, 1997, approved an amendment adding Article 23 to the Enhancement Agreement which provides for premium subsidies relative to premium increase problems with Aurora IL88 contracts. The Association adopted a resolution to participate in this amendment on July 8, 1997.

On February 13, 2005, the California Insurance Commissioner entered into settlements in the lawsuit he filed against Aurora National Life and its parent company, New California Life Holdings. The settlement calls for Aurora and New California to pay \$80 million to the Executive Life Insurance Company estate. All counterclaims filed against NOLHGA were dismissed. Since inception of the plan, the Association has received modest distributions from the estate as a result of litigation recoveries.

The Commissioner continues to pursue litigation in federal court against other parties involved in the rehabilitation plan on the basis that the undisclosed relationship of the parties to the French government violated California law and federal banking law. The initial trial of the matter ended with conflicting findings and both sides appealed. The case has been remanded to District Court, with a trial likely in 2011.

To date, the participating guaranty associations have paid over \$2.5 billion in policyholder benefits for Executive Life Insurance Company. The associations are projected to pay over \$1 billion of additional benefits during the balance of this century.

STATUS REPORT

As of December 31, 2010

Company: EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK
Status: In Rehabilitation
Insolv/Rehab Date: 1991

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:	\$
Annuity Claims:	\$	Reinsurance:	\$
Health Claims:	\$	Reinsurance:	\$

ADMINISTRATIVE EXPENSES

Life A/E:	\$
Annuity A/E:	\$ 136,972.00
Health A/E:	\$

RECEIPTS

Life Premium:	\$	Estate Dist:	\$
Annuity Premium:	\$	Estate Dist:	\$
Health Premium:	\$	Estate Dist:	\$

EXECUTIVE LIFE INSURANCE COMPANY OF NEW YORK

COMMENTS

Executive Life Insurance Company of New York was licensed in New York and licensed to do business across the country. In the early 1990s, the company experienced financial trouble due to extensive holdings in the junk bond market. At that time, the New York Superintendent of Insurance took over ELNY and put it into rehabilitation. A Rehabilitation Plan was approved and implemented in 1992. Under the plan, the deferred annuities and traditional life blocks of business were assumptively reinsured by Metropolitan Life. The retained business consisted primarily of SPIAs, to be supported by ELNY's Investment portfolio (managed with the assistance of Investment advisor Credit Suisse/First Boston), with the annuity contracts being administered by MetLife as TPA for the rehabilitator.

There are a multitude of complications regarding Guaranty Association coverage. In some states, the Guaranty Association had not been created when ELNY was placed in rehab in 1991. Secondly, In several states, ELNY's Certificate of Authority had been suspended or revoked several years prior to its rehabilitation in 1991, and in several states, the date of suspension or revocation predates creation of the guaranty fund. Third, over one-half of ELNY's structured settlement annuities are owned by two entities. One of these entities has been domiciled in California and New York; the other in California and Connecticut. In about 30 states (including Tennessee), coverage for structured settlement annuities is determined by the principal place of business of the contract owner, not the payee. In approximately 20 states, the residence of payee determines coverage. Less than one-half of the state guaranty funds will provide any coverage under the traditional interpretations of the guaranty fund statutes. Finally, structured settlement payees are either individuals who have been injured in accidents, family members of injured persons or the survivors of injured persons.

The NOLHGA Task Force for ELNY continues to meet with representatives of the New York Liquidation Bureau and the life and property/casualty industry to develop a long-term plan to handle the policyholder obligations in the company.

STATUS REPORT

As of December 31, 2010

Company: FRANKLIN AMERICAN LIFE INSURANCE COMPANY (TN)
Status: In Liquidation
Insolv/Rehab Date: October 25, 1999

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$	Reinsurance:	\$6,829,009.42
Annuity Claims:	\$	Reinsurance:	\$2,292,920.00
Health Claims:	\$	Reinsurance:	\$

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 1,054,898.23
Annuity A/E:	\$ 354,730.32
Health A/E:	\$

RECEIPTS

Life Premium:	Estate Dist:	\$ 21,214.00
Annuity Premium:	Estate Dist:	\$ 9,092.00
Health Premium:	Estate Dist:	

FRANKLIN AMERICAN LIFE INSURANCE COMPANY

COMMENTS

Franklin American is one of seven companies, domiciled in five different states, owned by the Thunor Trust, which have been placed in receivership due to misappropriation of company assets. The key figure in this large multi-state insolvency is Martin Frankel, who has a history of shady dealings in the securities business, and who mysteriously disappeared, along with most of the companies' assets. The complex, and apparently corrupt, manipulations of Mr. Frankel have been widely reported in the press since his disappearance, and state regulators are under fire for their roles in allowing his investment scams to go unchecked; however, Tennessee is the only state involved which did insist that funds held by Franklin American be returned to Tennessee when it discovered that they had been removed from the state, and because of their action, Tennessee held the only available assets in the amount of \$57 million. An agreement was reached between Tennessee and the other affected states whereby \$17.5 million of the \$57 million will be distributed among the other four states.

Franklin American is domiciled in Tennessee and licensed in 14 states.

Total policyholder liabilities for all companies amount to an estimated \$400 million, with the bulk in life insurance and annuities, and a small amount of health insurance business.

Investors Heritage assumed the outstanding policies of Franklin American under the early access agreement and assumption reinsurance agreement. Under the early access agreement, the FALIC estate provided approximately \$33 million to partially fund the assumption of the guaranty associations' approximately \$49 million obligations.

The receiver of the Thunor Trust Companies continue their efforts to recover assets. Through the end of 2008 recoveries totaled approximately \$60 million. It appears likely that the Franklin American estate will be able to make an additional distribution to guaranty associations in 2011, and that all policyholder level expenses will ultimately be covered.

STATUS REPORT

As of December 31, 2010

Company: LIFE AND HEALTH INSURANCE COMPANY OF AMERICA (PA)
Status: In Liquidation
Insolv/Rehab Date: July 2, 2004

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:	\$		
Annuity:	\$		
Health:	\$		
Total:	\$		

CLAIMS PAID

Life Claims:		Reinsurance:
Annuity Claims:		Reinsurance:
Health Claims:	\$ 1,269,417.61	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 1,593.30
Annuity A/E:	\$
Health A/E:	\$ 97,738.70 <i>(reflects refund of \$33,580.63 from NOLHGA in April 2006)</i>

RECEIPTS

Life Premium:		Estate Dist:
Annuity Premium:		Estate Dist:
Health Premium:	\$ 17,202.00	Estate Dist: \$ 1,056,681.00

LIFE AND HEALTH INSURANCE COMPANY OF AMERICA

COMMENTS

Life and Health Insurance Company of American is a Pennsylvania company licensed in 29 states including Tennessee. Most of the company's business is health insurance. The company has a total of one hundred and seventy policies in force in Tennessee, including one hundred and twenty-two long term care contracts.

On August 31, 2004 NOLHGA sent information concerning the liquidation plan including a service agreement with R.N. Swanson & Associations and an early access agreement.

On June 1, 2005 NOLHGA and Philadelphia American Life Insurance Company closed a reinsurance transaction for LHICA's military allotment, universal life, single premium whole life and AD&D products - a total of approximately 700 policies, with approximately \$1.3 million in reserves.

The Association received an Early Access Distribution in the amount of \$305,549.00 in October of 2005.

The Association received an Early Access Distribution in the amount of \$221,682.00 on October 23, 2006.

At their meeting held on January 17, 2007, the MPC unanimously passed three resolutions concerning an agreement with Philadelphia American Life to assume a block of long-term care policies, a partial commutation of eight reinsurance claims, and an agreement to continue the reinsurance on some policies in the AIL block.

On April 9, 2007 the Association received an Estate Distribution in the amount of \$90,449.00.

In April of 2007 the Guaranty Associations closed on a transaction with Philadelphia American Life under which it assumed all LTC policies that were in active claims status as of the date of liquidation. The affected guaranty associations succeeded to all rights to an existing reinsurance treaty that covers some of the LTC policies

On November 28, 2007 the Pennsylvania court signed and approved the First Accounting and Petition for Distribution of the LHICA estate. This includes the proposal for the distribution of the LHICA estate; the Assumption Reinsurance Agreement with Philadelphia American Life Insurance Company; and the Acknowledgement and Agreement and Release between the liquidator, NOLHGA, and the participating guaranty associations. The closing and signing of the Assumption Reinsurance Agreement with Philadelphia American, as well as the distribution of estate assets occurred in the first quarter of 2008.

In December 2008 the Association received \$2,526.00 from NOLHGA which represents a true up payment and estate distribution of funds held by them as of September 30, 2007.

The Association continues to pay claims on a few health policies.

STATUS REPORT

As of December 31, 2010

Company: LINCOLN MEMORIAL LIFE INSURANCE CO. (TX)
Status: In Liquidation
Insolv/Rehab Date: August 11, 2008

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$ 1,499,400.00	Reinsurance:
Annuity Claims:		Reinsurance:
Health Claims:		Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E: \$ 164,236.00 (reflects \$27,279.00 refund from NOLHGA March 2009)
Annuity A/E:
Health A/E:

RECEIPTS

Life Premium:	Estate Dist:	\$201,258.00
Annuity Premium:	Estate Dist:	
Health Premium:	Estate Dist:	

LINCOLN MEMORIAL LIFE INSURANCE COMPANY

COMMENTS

Lincoln Memorial Life Insurance Company of Texas and its two affiliated companies, National Prearranged Services, Inc. ("NPS") and Memorial Service Life Insurance Company were placed in liquidation by the Texas Department of Insurance on August 11, 2008. Memorial Service Life only conducted business in Texas. NPS is a funeral service company involved in the sale of pre-need contracts. NPS is not a licensed insurer, but is part of the insurance insolvency proceeding based upon the liquidator's findings that the operations of NPS were inextricably interwoven with those of the insurance company.

Lincoln Memorial was licensed in over 40 states, including Tennessee. Over 90% of the business in Lincoln Memorial was inappropriately manipulated by NPS, including the following unauthorized activities: policy loans; conversion of whole life contracts to term policies; conversion of policies to paid up policies; and the lapse of policies.

On August 28, 2008 the Board of Directors of the Association met and agreed to adopt a resolution whereby the Association agreed to participate in the Liquidation Plan and Service and Early Access Agreement by and among the Special Deputy Receiver of Lincoln Memorial Life Insurance Company, Memorial Service Life Insurance Company and National Prearranged Services, Inc. Under the plan, the Association agrees to a run-off process and to pay claims as they arise face value of the insurance policy only. The Association has made an initial deposit of \$999,400.00 to fund expected life claims that are pending on the date of liquidation. In June of 2009, the Association made a subsequent deposit of \$500,000.00.

In October 2008 the MPC unanimously passed a resolution authorizing the task force to accept the TPA service agreements negotiated with North Carolina Mutual and North American Life Insurance Companies and to begin a 30 day opt-out process with the guaranty associations. The MPC also authorized the task force to enter into negotiations with both companies to acquire the business they are administering under the TPA service agreements via an assumption reinsurance transaction.

The guaranty associations in late 2008 reached agreement with North Carolina Mutual and North American Life Insurance Company pursuant to which these companies agreed to assume liability on a small block of policies they had previously administered for Lincoln Memorial. This required no funding by the guaranty associations.

On August 6, 2009 suit was filed in the U.S. District court for the Eastern District of Missouri on behalf of the Guaranty Associations. The Associations are represented by the law firm of Reily Pozner, LLP of Denver, Colorado.

In September 2010, the Association received the statutory deposit which had been held by the State of Tennessee. The amount of the deposit was \$201,258.00.

STATUS REPORT

As of December 31, 2010

Company: NATIONAL STATES INSURANCE COMPANY (MO)
Status: In Rehabilitation
Insolv/Rehab Date: April 1, 2010

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Total:			

CLAIMS PAID

Life Claims:	\$ 295,313.58	Reinsurance:	\$
Annuity Claims:		Reinsurance:	\$
Health Claims:	\$ 83,574.92	Reinsurance:	

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 7,897.10
Annuity A/E:	\$ 1,059.90
Health A/E:	\$ 2,215.00

RECEIPTS

Life Premium:	\$	Estate Dist:	\$
Annuity Premium:	\$	Estate Dist:	\$
Health Premium:		Estate Dist:	

NATIONAL STATES INSURANCE COMPANY (MO)

COMMENTS

National States Insurance Company is licensed in 37 states and wrote life, accident, long term care and Medicare Supplement policies. On April 1, 2010 the company was placed into Rehabilitation.

A petition for Liquidation was filed on October 28, 2010. The order of liquidation went into effect on November 15, 2010.

Most of the policies remaining in the company are whole life policies sold as burial insurance, with an average face amount of about \$8,700. The NOLHGA Task Force handling this insolvency will evaluate potential assumption reinsurance options.

STATUS REPORT

As of December 31, 2010

Company: PENN TREATY NETWORK AMERICA INSURANCE CO (PA)
Status: In Receivership
Insolv/Rehab Date: January 6, 2009

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	Reinsurance:
Annuity Claims:	Reinsurance:
Health Claims:	Reinsurance:

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 648.30
Annuity A/E:	\$ 186.50
Health A/E:	\$ 53,682.20

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist:

PENN TREATY NETWORK AMERICA INSURANCE COMPANY

COMMENTS

Due to the company's corrective action plan still being under consideration by the Pennsylvania Insurance Department, Penn Treaty American Corp. has voluntarily suspended new sales of long-term nursing facility and home health care insurance products in all states except New York. The company had anticipated the plan to be completed by September 1, 2001. The corrective action plan is for Penn Treaty Network America Insurance Company, a subsidiary of Penn Treaty, and is intended to generate additional statutory capital for its subsidiary operations.

Penn Treaty subsidiaries will not accept new applications for the referenced products until December 15, 2001 unless they receive earlier regulatory approval. The suspension of sales does not affect policies pending through September 10, 2001 or policy renewals, and does not include the disability and Medicare supplement products, which are sold to other companies.

On January 6, 2009, Penn Treaty was once again placed in rehabilitation by the Pennsylvania Insurance Commissioner.

On October 2, 2009 petitions for liquidation were filed, but an actual date for liquidation remains uncertain. Hearings on the liquidation petition are expected to occur in 2011. In the meantime, the receiver is paying all claims in full.

STATUS REPORT

As of December 31, 2010

Company: RELIANCE INSURANCE COMPANY (PA)
Status: In Liquidation
Insolv/Rehab Date: October 4, 2001

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:	\$250,000.00	01/22/04	09/24/04
Total:			

CLAIMS PAID

Life Claims:	Reinsurance:
Annuity Claims:	Reinsurance:
Health Claims:	Reinsurance:

\$173,381.25

ADMINISTRATIVE EXPENSES

Life A/E:
Annuity A/E:
Health A/E: \$ 21,770.00

RECEIPTS

Life Premium:	Estate Dist:
Annuity Premium:	Estate Dist:
Health Premium:	Estate Dist: <\$ 36,658.00>

RELIANCE INSURANCE COMPANY

COMMENTS

Placed in rehabilitation by Pennsylvania Insurance Commissioner on May 29, 2001; liquidation order entered on October 4, 2001. Company wrote predominately workers' compensation, private and commercial auto and personal liability insurance in 50 states. Direct premium written totaled approximately \$1.5 billion in 1999. Commissioner Koken reported that As of December 31, 2001, admitted assets were \$8.8 billion and total liabilities were \$9.9 billion. The terrorist attacks on the World Trade Center and the Pentagon on September 11 accelerated the liquidation of the company.

Reliance wrote a relatively small amount of accident and health insurance in several states through its former subsidiary, United Pacific Insurance Co., which was merged into Reliance in late 2000. Antares Business Solutions has been administering that business. The balance of the A&H business (except for a small amount that has been substantially run off at Reliance) was transferred in 2000 to Combined Insurance Co, an AON subsidiary.

The NOLHGA Task Force arranged to transfer a large block of the annuity and health business to Combined Insurance Co of America; opt-out packages were mailed to affected guaranty associations in November, 2001. At its November 12 meeting, the TLHIGA board voted unanimously to participate in the proposed disposition plans for the blocks of Reliance business. In addition, the MPC approved the Task Force's recommendation to enter into an Early Access Agreement with the Liquidator.

On January 4, 2004 the Association received \$22,181.00 from an early access distribution. On February 17, 2004, the Association received \$51,429.00 as our share of early access funds.

On June 1, 2005 the assumption agreement with Madison National Life Insurance Company became official. The association funded \$51,805.25 to complete this transaction.

At it's meeting on January 17, 2007, the MPC reported that they have continued to respond to liquidator's audit questions and also negotiated a settlement with the liquidator concerning guaranty association payment of the non-billed and held claims.

In June 2010 the Receivership exercised its right to require a "claw back" of funds previously distributed to guaranty associations. The Association paid \$109,467.00 to fund the claw back. This was more than the prior early access distributions because the receiver had depleted funds for administration and administrative expenses incurred by the receivership to administer health claims for the guaranty associations were deemed to be early excess distributions..

STATUS REPORT

As of December 31, 2010

Company: UNIVERSAL LIFE INSURANCE COMPANY (AL)
BOOKER T. WASHINGTON INSURANCE COMPANY (AL)

Status: In Liquidation

Insolv/Rehab Date: May 5, 2010

CLASS B ASSESSMENT

<u>Account</u>	<u>Amount</u>	<u>Authorized</u>	<u>Levied</u>
Life:			
Annuity:			
Health:			
Total:			

CLAIMS PAID

Life Claims:	\$ 58,034.75	Reinsurance:	\$
Annuity Claims:	\$	Reinsurance:	\$
Health Claims:	\$ 421.20	Reinsurance:	

ADMINISTRATIVE EXPENSES

Life A/E:	\$ 17,243.10
Annuity A/E:	\$
Health A/E:	\$ 10,126.90

RECEIPTS

Life Premium:	\$	Estate Dist:	\$
Annuity Premium:	\$	Estate Dist:	\$
Health Premium:	\$	Estate Dist:	

PROOF OF CLAIM

Last Date Filed:

UNIVERSAL LIFE INSURANCE COMPANY (AL)
BOOKER T. WASHINGTON INSURANCE COMPANY (AL)

COMMENTS

Universal Life Insurance Company/Booker T. Washington Insurance Company are affiliated companies domiciled in Alabama. Booker T. Washington was placed in rehabilitation in February 2006 and Universal Life was placed in rehabilitation in April 2009. Both companies sold small life insurance policies, often in conjunction with pre-need funeral arrangements, along with industrial health and disability policies. One block of life insurance business is the subject of a co-insurance arrangement with North Carolina Mutual, and the rehabilitator is attempting to convert this to an assumption reinsurance arrangement. It is anticipated that the pending rehabilitation proceedings will convert to liquidations. Between the two companies, there are approximately 5,000 (out of a total of 136,000) in Tennessee with a reserve value of about \$1.4 million. The Association is a member of the NOLHGA Tax Force for Universal Life Insurance Company/Booker T. Washington.

Universal Life and Booker T. Washington were placed into liquidation by order of the Alabama Receivership Court on May 5, 2010. Claims are being serviced by the receiver pursuant to a service agreement between the guaranty association and the receiver. Early access payments and return of statutory deposits will probably be sufficient to pay claims for 2 to 3 year at least.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE ANNUAL MEETING OF THE BOARD OF DIRECTORS

October 13, 2010

The Annual Meeting of the Board of Directors of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:11 A.M., C.D.T., on October 13, 2010, at the offices of the Association, 1200 One Nashville Place, 150 Fourth Avenue North, Nashville, Tennessee.

1. ATTENDANCE

Present: American General Life & Accident Insurance Company
- Sharon K. Roberson
Unum Group
- Elizabeth H. Simon
Plateau Insurance Company
- Mike Graham
CIGNA Healthcare
- Brent Wick
State Farm Life Insurance Company
- Jeff Shay
Protective Life Insurance Company
- Barrie Balzli Stokes
BlueCross BlueShield of Tennessee
- J. Barclay Phillips
Tennessee Farmers Life Insurance Company
- Edward K. Lancaster
Prudential Insurance Company of America
- Michael A. Jennings
Department of Commerce and Insurance
- Larry Knight
Department of Commerce and Insurance
- Mark Jaquish
Department of Commerce and Insurance
- LaCosta Wix
Association Administrator
- Dan Elrod
Assistant to the Administrator
- Renee Birdwell
Assistant to the Administrator
- Gwyn Etheridge

2. NOTICE OF MEETING

Notice of meeting was properly given.

3. PRESIDING OFFICER AND ADMINISTRATOR

Ms. Roberson called the meeting to order, and asked Mr. Elrod and Ms. Birdwell to keep notes for purposes of drafting minutes. Mr. Larry Knight, Mr. Mark Jaquish, and Ms. LaCosta Wix of the Tennessee Department of Commerce and Insurance were also present for the meeting of the Board of Directors.

4. APPROVAL OF MINUTES

Ms. Roberson directed the Board's attention to the minutes of the meetings held on October 21, 2009, and February 12, 2010. It was noted that copies of the minutes had previously been distributed to the Board. There being no changes or corrections to the minutes, upon motion made and seconded, the Board unanimously voted to approve the minutes of the meeting of the Members on October 21, 2009, and the meetings of the Board of Directors on October 21, 2009, and February 12, 2010.

5. REPORT BY ADMINISTRATOR

Ms. Roberson asked Mr. Elrod for his report. Mr. Elrod then directed the Board's attention to the Annual Meeting binder containing information on the following matters:

Financial Reports

- a. 2009 Audit – Mr. Elrod stated that the annual audit of the records of the Association had been conducted by Faulkner Mackie & Cochran, P.C. Mr. Elrod noted that the Association's audit was clean and without issue.
- b. 2009 Annual Report – Mr. Elrod reviewed with the Board the 2009 Annual Report which was filed with the Department of Commerce and Insurance in May of this year.
- c. Unaudited Financial Report – Mr. Elrod reviewed with the Board the unaudited financial report which reflects financial activity from January 1, 2010, to September 30, 2010. He reminded the Board that no Class A Assessment was levied in 2010, and a Class B Assessment for health was levied in June 2010.
- d. Quarterly Investment Report – Mr. Elrod directed the Board's attention to the Quarterly Investment Report for the third quarter of 2010. This report indicates how Class B Funds are invested. Mr. Elrod advised the Board that a copy of the Investment Policy was included in the binder.
- e. Rates of Return Summary – Mr. Elrod reviewed the summary from Smith Barney showing the rate of return on invested assets, the rates of return for the first nine (9) months of 2010, compared with other commonly used indices.

- f. Insolvency Claims and Expenses Net Recoveries – Mr. Elrod directed the Board’s attention to the Insolvency Claims and Expenses Net Recoveries report, which shows a cumulative total of all insolvency expenses net of recoveries. Items listed in bold are insolvency expenses in which significant changes occurred since the 2009 Annual Meeting.
- g. State Examination - Mr. Elrod advised the Board that the Association was the subject of an examination by the State Department of Commerce and Insurance in March of 2010. The examiners report has not been received as of the date of the meeting.

Audit Committee

The Audit Committee is comprised of Mr. Mike Graham of Plateau Insurance Company, Mr. Wayne Merrill of Tennessee Farmers Insurance Company and Mr. Barry Hopkins of American General Life and Accident Insurance Company. He then asked Mr. Graham to report to the Board regarding the Committee’s activities.

- The Audit Committee met on November 10, 2009, and adopted a motion to retain Faulkner Mackie & Cochran, P.C. (“FMC”) for the 2009 audit of the Association and preparation of the Association’s 2009 tax return, and FMC was retained. The Committee also discussed the request from the Board that the Committee consider revision of the Investment Policy. The Committee decided that a meeting with the Association’s investment broker was in order.
- The Audit Committee met on February 22, 2010, with M. Wright “Chip” Hickerson, III of MorganStanley/SmithBarney regarding the Association’s investment policy. After a review of the current policy and discussion regarding changes that are warranted, the Audit Committee agreed to recommend changes to the Investment Policy. The Audit Committee’s recommendation was subsequently distributed to the Board; the Board members indicated their approval of the proposed changes by e-mail responses.
- The Audit Committee met on April 12, 2010, with Ms. Janet Jones and Mr. Jerry Faulkner of FMC regarding its audit of the Associations 2009 records. Mr. Graham relayed to the Board that FMC reported no questionable items or problems.
- In its report, FMC identified an opportunity to strengthen internal controls relative to receipt of estate distributions and other funds from NOLHGA. As a result of this comment, Mr. Elrod communicated with NOLHGA, and NOLHGA has instituted a process of advance notification that funds will be distributed.

Mr. Elrod thanked Mr. Graham for his report.

Insolvency Status Reports

- a. Executive Life of New York – Executive Life of New York has been under an Order of Supervision since 1991. The Company lost its certificate of authority in the State of Tennessee in 1970.

Most of the Company's business is structured settlement annuities purchased by liability insurers to settle personal injury claims. Those contracts are not owned by the persons who receive the benefits of the contracts. This will present unique challenges for the Guaranty Associations. Mr. Elrod stated that it appears that Executive Life of New York will become insolvent in ten to fifteen years, but there have been efforts to devise a global plan with contributions from the Guaranty Associations, the Property/Casualty companies that purchased ELNY annuities to settle claims and the life insurance industry. These efforts have not yet resulted in a consensus proposal.

Mr. Elrod stated that current information indicates that the present value of annuities with Tennessee's present exposure is approximately \$7 million. About one half of this amount would be in excess of the Association's coverage limits.

- b. Thunor Trust Companies – Mr. Elrod reminded the Board that one of the companies involved in this insolvency is Franklin American Life Insurance Company, which was domiciled in Tennessee. This insolvency also involves companies domiciled in Alabama, Mississippi and Missouri. The Association serves on the NOLHGA Task Force regarding the Thunor Companies

Mr. Elrod reported that the estate of Franklin American is very close to making a distribution that will cover all policyholder claims. There have been extensive discussions between the NOLHGA Task Force and the Receiver about the administrative expense claims of NOLHGA and the individual Associations. In the Franklin American insolvency these claims total approximately \$2,290,000. The Receiver initially rejected the claim based on insufficient documentation. With the assistance of NOLHGA, the Task Force provided the Receiver with significant documentation of expenses incurred, although there were some invoices from Arthur Anderson that could not be located. In the course of negotiations with the Receiver's counsel, questions were also raised about the lack of consistency between the individual Guaranty Associations as to how they account for expenses. For instance, there are states that had significantly less policyholder liabilities than Tennessee, but its guaranty association expenses were much greater than Tennessee's. Based on the complications involved and the fact that expenses have to be judicially approved, the Task Force negotiated a settlement with the Receiver, pursuant to which the total administrative expense claim will be reduced by 30%. Since Tennessee had about 83% of the Franklin American liabilities, a proportionate amount of settlement reduction will be allocated to Tennessee. Mr. Elrod asked if any Board members had objections to the proposed settlement, and the members indicated their concurrence with no objection.

- c. Lincoln Memorial Life Insurance Company – Lincoln Memorial Life Insurance Company of Texas and two affiliated companies, National Prearranged Services and Memorial Services Life were placed into liquidation on August 11, 2008. National Prearranged Services is not an insurance company, but entered into pre-need funeral contracts that were funded by insurance purchased from Lincoln Memorial or Memorial Services Life. The financial difficulties of these companies was caused by the criminal activities of the owners, and there are no assets available to pay claims. The Guaranty Associations, pursuant to a servicing arrangement with the receiver, are paying claims as they are presented. The guaranty system's exposure to this insolvency is about \$600 million, although there may be some reinsurance coverage. Tennessee's exposure is approximately \$11 million. The Association has paid \$1.8 million in claims to date. Payments of death claims could take place for many years, because it may be difficult to find another company willing to assume the business.

The Guaranty Associations have collectively filed lawsuits against the owners who looted the companies. While the claims are meritorious, the availability of assets to pay a judgment is uncertain.

- d. Universal Life Insurance Company/Booker T Washington Insurance Company – Mr. Elrod informed the Board that Universal Life Insurance Company was formerly domiciled in Tennessee, but moved its domicile to Alabama several years ago when it was acquired by Booker T. Washington Insurance Company. These companies sold life insurance, burial policies and industrial health/disability insurance. They were placed in Receivership in February 2006, and declared insolvent in May 2010. During the receivership, bids were taken for the business of the companies, and this resulted in a coinsurance arrangement with North Carolina Mutual for the life insurance policies that are on a premium paying basis. The coinsurance arrangement was subsequently changed to an assumption reinsurance transaction, leaving Universal Life and Booker T. Washington with paid-up policies. There are about 5,000 policyholders in Tennessee.

Mr. Elrod reported that the administration of this company has been particularly difficult because of a wide variety of policy forms and poor records. The companies had assumed small blocks of burial insurance and industrial life policies from other companies over the years. It appears that the reserve value of the policies in Tennessee is about \$1,450,000. The assets in the estate total about 60% of liabilities.

- e. Penn Treaty Network America Insurance Company – This is a Pennsylvania company that wrote mainly long term care insurance. It and its affiliate, American Network Insurance Company, have been in receivership since January 2009, but a petition for liquidation was filed on October 2, 2009. The companies have an estimated deficiency of \$1.6 billion. As of the date of this meeting, the present value of Tennessee's potential liability is approximately \$32 million. There has been discussion among the Guaranty Associations and the industry regarding

whether it would be best to assess initially for potential liability or assess in intervals over a period of years as funds are needed.

- f. Standard Life of Indiana - Mr. Elrod reported that efforts continue to sell the business in Standard Life of Indiana, without any Guaranty Association participation.
- g. Shenandoah Life Insurance Company – Mr. Elrod informed the Board that Shenandoah Life has been placed in Rehabilitation. The Rehabilitation is attempting to find a buyer for the company or a buyer for the insurance business in the company.

Class B Health Assessment

Mr. Elrod advised the Board that a Class B Health Assessment was distributed on June 30, 2010, in the amount of \$2,750,000. As of the date of the meeting, only two companies have not paid the assessment. The names of the delinquent two companies have been referred to the Department of Commerce and Insurance for appropriate action.

Class A Assessment

Mr. Elrod reminded the Board that State law allows the Association to levy a Class A Assessment on each company licensed to conduct business in Tennessee in the amount of \$150 per year. In the recent past, the Association has issued two annual assessments at one time in order to reduce administrative time and expense. The last Class A Assessment was issued in 2008 for the years 2006 and 2007. Based on the current financial status of the Association, Mr. Elrod requested that the Board consider issuing a Class A Assessment in early 2011 for the years 2010 and 2011. Upon motion duly made and seconded, the Board adopted a motion authorizing the issuance of a Class A Assessment in 2011 for the years 2010 and 2011.

Matters Relating to Administration

- a. Retention of Faulkner Mackie & Cochran – The consensus of the Board was that the Audit Committee should meet and determine whether Faulkner Mackie should be retained for 2011.
- b. Banking Resolutions – Mr. Elrod explained that the Association's banking institution routinely requests updated banking resolutions, and for such purposes, requested the Board to adopt a resolution authorizing the appropriate Association officers to execute said banking resolutions when necessary. After motion made and seconded, the Board unanimously voted to adopt said resolution.
- c. Investment Policy – Mr. Elrod reminded the Board that it had requested the Audit Committee to review the Association's Investment Policy. As was previously discussed by Mr. Graham, the Investment Policy was reviewed and revised. Upon motion duly made and seconded, the Board unanimously adopted a motion

ratifying its previous action approving changes in the Investment Policy recommended by the Audit Committee.

- d. Conflicts of Interest Policy Statement – Copies of the Association's Conflicts of Interest Policy Statement were distributed to all Board members and administrative staff. Mr. Elrod explained that it is customary to execute and submit the policy statement on an annual basis, and requested that Board members and administrative staff submit executed statements for the coming year.
- e. Privacy Statement – Mr. Elrod directed the Board's attention to the privacy statement prepared in response to the law passed by Congress in 1999 as part of the Gramm-Leach-Bliley Act ("GLB"), which governs the disclosure of consumer's nonpublic personal financial information by financial institutions.

Mr. Elrod informed the Board that NOLHGA is currently developing a detailed privacy policy for life and annuity business that will affect all State Associations. When the policy is adopted, it may require the Association to make some changes regarding file access and retention.

- f. Miscellaneous Matters – Mr. Elrod informed the Board that during the early days of the financial crisis in 2008, the Association received hundreds of call per week. Currently, the Association receives about 80 calls per month. Also, the Association's website receives numerous inquires.

6. NOLHGA

Mr. Elrod reported that NOLHGA was involved in educating members of Congress about the guaranty system in connection with the financial regulatory reform. NOLHGA is close to finalizing a multi-year effort to establish privacy policies and procedures for life and annuity businesses. It has begun work on a uniform methodology for state Associations to track administrative expenses.

7. 2010 LEGISLATION

Mr. Elrod advised the Board that the legislation considered by the Board in February was subsequently introduced and passed in the 2010 session of the Tennessee General Assembly. Seventeen items have been identified by NOLHGA as key aspects of uniformity among state Guaranty Association Acts. These items were included in the Tennessee legislation.

8. ELECTION OF OFFICERS

As the next order of business, Ms. Roberson announced the floor was open for the election of officers, and asked for nominations. Upon motion made and seconded, the Board unanimously adopted a motion electing the following officers for 2011:

Chairperson	American General Life & Accident Insurance Company – Sharon K. Roberson
-------------	--

Vice-Chairperson	Tennessee Farmers Life Insurance Company – Edward K. Lancaster
Secretary/Treasurer	Plateau Insurance Company – Dick Williams (with Mike Graham as the alternate representative)

9. REPORT FROM THE DEPARTMENT OF COMMERCE AND INSURANCE

Mr. Elrod asked the representatives of the Department of Commerce and Insurance if they would like to present any information to the Board.

Mr. Larry Knight informed the Board this his office has been dedicating a great amount of time to health care reform and analyzing how it will affect consumers as well as insurance companies that are domiciled in Tennessee. The Department is particularly concerned with the potential impact on small health insurance companies.

Mr. Knight further reported that the Department is considering potential legislation in 2011 that would affect Property and Casualty insurers.

10. CONSIDERATION OF ADMINISTRATOR'S POSITION

The Board asked Mr. Elrod, Ms. Birdwell and Ms. Etheridge to excuse themselves from the meeting during consideration of the proposal from Mr. Elrod to continue as Administrator, as set forth in his letter to Ms. Roberson dated September 21, 2010. Prior to excusing himself from the meeting, Mr. Elrod requested that the Board consider establishing a succession plan in the event that Mr. Elrod becomes unable to continue as the Administrator of the Association. After discussion of the matter, the Board, upon motion made and seconded, voted unanimously to accept Mr. Elrod's proposal.

Ms. Roberson appointed a Committee to consider a succession plan. The Committee is comprised of Ms. Roberson, Mr. Lancaster and Mr. Phillips.

11. ADJOURNMENT

There being no further business before the Board, the meeting adjourned at 12:25 P.M.

cc: Board of Directors

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS

FEBRUARY 12, 2010

A meeting of the Board of Directors of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 2:00 P.M., C.S.T., on February 12, 2010 via teleconference.

1. ATTENDANCE

Present: American General Life & Accident Insurance Company
- Sharon Roberson
BlueCross BlueShield of Tennessee
- J. Barclay Phillips
Tennessee Farmers Life Insurance Co.
- Edward K. Lancaster
Prudential Insurance Company of America
- Michael A. Jennings
Unum
- Elizabeth H. Simon
Association Administrator
- Dan Elrod
Assistant to the Administrator
- Renee Birdwell

2. NOTICE OF MEETING

Notice of meeting was properly given.

3. PROPOSED LEGISLATION

Mr. Elrod reminded the Board that the purpose of this meeting had been outlined in his memorandum to them of February 10, 2010, a copy of which is attached to these minutes.

After discussion of the contents of Mr. Elrod's memorandum, and upon motion duly made and seconded, the Board voted to take a position of no opposition to the proposal by the Department of Commerce and Insurance that the NAIC model limits be incorporated within legislation pending before the General Assembly.

4. ADJOURNMENT

There being no further business before the Board, the meeting adjourned at 2:20 P.M..

cc: Board of Directors

Renee Birdwell

From: Dan Elrod
Sent: Wednesday, February 10, 2010 6:43 PM
To: barrie.stokes@protective.com; esimon@unum.com; Clay_Phillips@bcbst.com; dwilliams@plateaugroup.com; Ed Lancaster; Jeff Shay; john.sorrow@cigna.com; michael.jennings@prudential.com; mgraham@plateaugroup.com; Renee Birdwell; sharon.roberson@aglife.com
Cc: Renee Birdwell; Cari Wymer
Subject: TN Legislation - Immediate Attention Requested

NOTE: IMMEDIATE ATTENTION REQUESTED

To the Board:

As you may recall, the Board previously considered proposed legislation to increase guaranty fund coverage for health insurance from \$100k to \$300k. The consensus Board position is to support this legislation, which also includes various technical changes to update our law to the current NAIC model. The Department of Commerce and Insurance has approached the bill sponsors about an amendment that would change the health insurance coverage limits to the current NAIC model. The NAIC model uses a tiered approach as follows:

- Miscellaneous health coverage (e.g., disease specific, hospital indemnity) --\$100k
- Long term care and disability -- \$300k
- Basic Health/major medical -- \$500k

In other words, the model bill provisions, as compared to the existing bill, would (1) **decrease** coverage for miscellaneous health insurance from \$300k to \$100k (although this has little if any practical impact because such coverages would rarely if ever exceed \$100k) and (2) **increase** basic health coverage from \$300k to \$500k. The department's reasons for the propose amendment include 1) desire to make TN law consistent with the model and 2) increased consumer protection. It should be noted that several states this year have initiatives underway to adopt the NAIC limits. The Department further claims that few if any health claims would exceed \$300k (which is correct based on historical experience), but that it is important that TN have the model level of consumer protection for the rare situation when a claim exceeds \$300k. The Department further notes that increased assessments, if any, ultimately would be recouped through the premium tax credit.

We need to develop an Association position on the proposed change as soon as possible. I would appreciate your responding as soon as possible with your comments or questions regarding the proposed change. **For those who would like to discuss this, we can have a conference call on Friday, 2:00 Central. The call in number is 800-925-9789, access code 2153724**

In the meantime, please give me a call if you would like to discuss this, but can not be on the call. Thanks.

Dan

2/11/2010

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

FEBRUARY 22, 2010

A called meeting of the Audit Committee of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:00 A.M. C.S.T. on February 22, 2010.

1. ATTENDANCE

Present: Barry Hopkins
-American General Life and Accident Insurance Company
Wayne Merrill – via teleconference
-Tennessee Farmers Insurance Companies
Mike Graham
-Plateau Insurance Company
M. Wright Hickerson, III
MorganStanley SmithBarney, LLC
Dan H. Elrod
-Association Administrator
Renee Birdwell
-Assistant to the Administrator

2. NOTICE OF MEETING

Notice of the meeting was properly given

3. INVESTMENT POLICY

Mr. Elrod called the meeting to order and directed the Committee's attention to the Association's Investment Policy which had been distributed to Committee Members in advance of this meeting. A copy of said policy is attached to these minutes. Mr. Elrod reminded the Committee that the Board of Directors, at its annual meeting, had requested the Committee to review the Investment Policy and to consider an update of the policy in light of current circumstances, including liquidity consideration.

Mr. Elrod further reminded the Committee that during their meeting of November 9, 2009, they requested a meeting with the Association's investment representative, M. Wright ("Chip") Hickerson to discuss the possible changes to the Investment Policy. Mr. Elrod then welcomed Mr. Hickerson to the meeting.

After review of the current Investment Policy with Mr. Hickerson, the Committee discussed the following change:

Delete: With respect to the direct obligations of the United States agencies, as described above, the average maturity of all such obligations shall not exceed 365 days, and no obligations shall have a maturity in excess of 36 months.

Replace with: With respect to direct obligations of the United States and obligations of United States Agencies, as described above, the following guidelines shall be observed to the extent practicable:

- At least twenty percent (20%) of such investments shall have a maturity of 365 days or less.
- At least thirty percent (30%) of such investments shall have a maturity of 24 months or less, provided the investments with a maturity of 365 days or less shall not be considered in determining the application of this guideline.
- No obligation shall have a maturity in excess of 60 months.

Upon motion duly made and seconded, the Committee voted to recommend the above change in the Investment Policy to the Board of Directors.

4. ADJOURNMENT

There being no further business before the Committee, the meeting adjourned at 11:10 A.M. C.S.T.

cc: Audit Committee
Board of Directors

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

INVESTMENT POLICY

OBJECTIVES

All investments executed on behalf of the Association should be within the framework of the following objectives:

- Safety of principle
- High degree of liquidity
- Maximization of income

GUIDELINES

Investments may be made in the following items with the restrictions as stated:

- Direct obligations of United States
- Obligations of the following federal agencies

Federal Home Loan Bank

Federal Home Loan Mortgage Corporation

Federal National Mortgage Association

No more than fifty percent (50%) of the Association's assets may be invested in agency obligations, and no more than twenty percent (20%) of the Association's assets shall be invested in the obligations of any one agency.

- Money Market Fund backed by direct obligations of United States

BANK DEPOSITS

Depository banks shall have assets of at least \$5 billion.

With respect to direct obligations of United States and obligations of United States agencies, as described above, the following guidelines shall be observed to the extent practicable:

- At least twenty percent (20%) of such investments shall have a maturity of 365 days or less.
- At least thirty percent (30%) of such investments shall have a maturity of 24 months or less, provided the investments with a maturity of 365 days or less shall not be considered in determining the application of this guideline.
- No obligation shall have a maturity in excess of 60 months.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

April 12, 2010

A called meeting of the Audit Committee of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened at 10:00 A.M. C.D.T. on April 12, 2010 at the offices of the Association, 1200 One Nashville Place, 150 Fourth Avenue North, Nashville, Tennessee.

1. ATTENDANCE

Present:

- Barry Hopkins
- American General Life and Accident Insurance Company
- Wayne Merrill
- Tennessee Farmers Insurance Companies
- Mike Graham
- Plateau Insurance Company
- Jerry Faulkner
- Faulkner Mackie & Cochran P.C.
- Janet Jones
- Faulkner Mackie & Cochran P.C.
- Dan H. Elrod
- Association Administrator
- Renee Birdwell
- Assistant to the Administrator

2. NOTICE OF MEETING

Notice of the meeting was properly given

3. FAULKNER MACKIE & COCHRAN P.C.

Ms. Jones and Mr. Faulkner reviewed the draft annual audit for 2009, noting that no questionable items or problems had been identified. Ms. Jones then directed the Committee's attention to the Report to the Audit Committee (a copy of which is attached to these minutes). In particular she addressed the issues listed under "Opportunities for Improving Operations and Strengthening Internal Controls" on page 4 of said document.

Ms. Jones and Mr. Faulkner informed the Committee that the Association occasionally receives distributions (either by check or wire) from The National Organization of Life and Health Guaranty Associations ("NOLHGA") or an individual estate without receiving any advanced notification of the payment. This process increases the risk of funds being diverted from the Association. Ms. Jones further suggested that the Committee consider the benefit of performing an annual reconciliation of the Association's records of receipts with NOLHGA's records of payments.

Mr. Elrod indicated that he would contact NOLHGA regarding this recommended procedure and would report back to the Committee with his findings.

4. ADJOURNMENT

There being no further business before the Committee, the meeting adjourned at 11:30 A.M.

cc: Audit Committee
Board of Directors

**Tennessee Life and Health Insurance
Guaranty Association**

REPORT TO THE AUDIT COMMITTEE

Communication of 2009 Audit Results

April 2, 2010



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

FAULKNER MACKIE & COCHRAN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

One American Center
3100 West End Avenue, Suite 700
Nashville, Tennessee 37203-1372

Telephone: (615) 292-3011
Fax: (615) 269-9047
Website: www.fmccpa.com

April 2, 2010

To the Members of the Audit Committee
Tennessee Life and Health Insurance Guaranty Association
Nashville, Tennessee

Dear Members of the Audit Committee:

We have audited the statement of cash receipts and disbursements, and changes in fund balance of the **Tennessee Life and Health Insurance Guaranty Association** (the "Association") for the year ended December 31, 2009, and have prepared a draft of our report thereon dated March 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 1, 2009. Professional standards also require that we communicate to you the following information, including the results of our audit and areas of audit significance. Additionally, we have summarized current accounting issues that may be relevant to the Association.

This information is intended solely for the use of the Audit Committee, Board of Directors and management (the Administrator) of the Association and is not intended and should not be used by anyone other than these specified parties.

We look forward to the opportunity to meet with you on Monday, April 12, 2010. Should you have any questions or comments, please contact me.

Very truly yours,



Jerry Faulkner

Enclosure

Copy: Dan Elrod, Administrator



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2009 Audit Results

CONTENTS

	<u>Page</u>
Required Communications	2
Current Issues	4



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2009 Audit Results

REQUIRED COMMUNICATIONS

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period, for purposes of the cash basis of accounting.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. However, utilizing the cash basis of accounting minimizes the need for estimates by management.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. However, we are not aware of any disclosures that are particularly sensitive.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. Furthermore, the Association's Administrator and staff responded to our requests and inquiries in a courteous, professional manner.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements that we identified during the audit.



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2009 Audit Results

REQUIRED COMMUNICATIONS (continued)

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management (Dan Elrod, Administrator) that are included in the management representation letter we provided on March 30, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

CURRENT ISSUES

Opportunities for Improving Operations and Strengthening Internal Controls

We plan to discuss the following items when we meet with members of the Audit Committee on April 12, 2010:

Cash Receipts of Estate Distributions

The Association receives estate distributions from NOLHGA or another party either via a wire transfer or a check. Advance notification of incoming estate distributions is typically provided via an e-mail to the administrators, Dan Elrod and/or Renee Birdwell. However, the Association sometimes receives cash receipts from NOLHGA or an individual estate with no prior notification or subsequent confirmation. Although there are currently few documented internal controls in place to prevent the diversion of cash (by wire or check) sent to the Association, factors have been identified that mitigate this risk. Consider the potential benefit of performing an annual reconciliation of the Association's records of receipts with NOLHGA records.

Prior Year Comments

The following prior year matters are being repeated for your consideration:

1. Review the Association's investment policy:
 - o Maturities – current investment policy states: "...the average maturities of [direct obligations of the United States and United States agencies] shall not exceed 365 days, and no obligations shall have a maturity in excess of 36 months."
 - o Impairment – consider the need to establish guidance for determining "other than temporary" impairment losses.
2. Consider appropriateness of Board or Audit Committee subsequent review and approval of sales and purchases of investments on a quarterly basis, similar to requirements of insurance companies.
3. Allocation of investment income - Over the years, investment income has been significant to the Association. It is our understanding that the Association has not periodically allocated investment income to each line of business (i.e. life, annuity, and health) based on the average balance of each insolvency estate. We believe management should consider performing such an allocation process for investment income received, including realized gains and losses, on an annual basis. (This could entail significant effort, especially to allocate investment income for prior years.)

By allocating investment income to each line of business, the Board of Directors will have more complete information to determine the appropriate level of Class B net assets (fund balance) to maintain or refund to member companies.



FAULKNER MACKIE & COCHRAN, P.C.
Certified Public Accountants & Consultants

Tennessee Life and Health Insurance Guaranty Association

Report to the Audit Committee

2009 Audit Results

CURRENT ISSUES (continued)

4. Net assets (fund balance) by each insolvency estate and line of business - We believe management should periodically (quarterly or annually) summarize the balance of net assets held for each insolvency estate versus the Association's remaining net assets.

We understand that the Audit Committee members have discussed the allocation of investment income and some preliminary work has occurred.

Audit Partner Rotation

In accordance with the October 21, 2009 Minutes of the Annual Meeting of the Board of Directors of the Association, the lead partner on the Association's audit will rotate every seven years. Jerry Faulkner began serving as lead audit partner in conjunction with the audit of the 2004 financial statements. Therefore, he will continue to serve as lead audit partner for the 2010 audit but will rotate off for the 2011 audit.

Fraud Awareness

On April 22, 2009, we provided via email our "2009 Fraud Awareness" report to Dan Elrod, Administrator, for his use and distribution to the Audit Committee and Board of Directors. Although the Association is a non-profit entity that serves the life and health insurance industry in Tennessee, we summarized the key exhibits and text from the 2008 Report to the Nation on Occupational Fraud and Abuse published by the Association of Certified Fraud Examiners bi-annually that we believed to be most applicable to companies operating in the insurance industry. We believe fraud awareness is important for on-going consideration by the management of any organization.

Your Questions or Comments

At your request, we will be glad to discuss any specific questions or comments you may have about the above issues.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NASHVILLE, TENNESSEE

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE

November 23, 2010

A called meeting of the Audit Committee of the Tennessee Life and Health Insurance Guaranty Association (the "Association") convened via teleconference at 10:00 A.M. C.S.T. on November 23, 2010.

1. ATTENDANCE

Present: Wayne Merrill
-Tennessee Farmers Insurance Companies
Mike Graham
-Plateau Insurance Company
Dan H. Elrod
-Association Administrator
Gwyn Etheridge
Assistant to the Administrator
Renee Birdwell
-Assistant to the Administrator

2. NOTICE OF MEETING

Notice of the meeting was properly given

3. RETENTION OF FAULKNER MACKIE & COCHRAN P.C. ("FMC")

Mr. Elrod called the meeting to order. He informed the Audit Committee that the Board of Directors had delegated to the Committee the determination as to whether the accounting firm of FMC should be retained to conduct the annual audit of the records of the Association and to complete the Association's Federal tax return.

After review of the amounts paid to FMC for the past five years, the Mr. Merrill and Mr. Graham recommended the retention of FMC for the upcoming audit of records and preparation of the Association's tax return. This decision was subsequently approved via email by Mr. Barry Hopkins of American General Life and Accident Insurance Company.

4. ADJOURNMENT

There being no further business before the Committee, the meeting adjourned at 10:20 A.M. CST.

cc: Audit Committee
Board of Directors

		DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Agency Strips-SER 1-Int Pmt		3/2/2009	\$ 25,000.00	2/12/2011	\$ 24,980.50
Federal Natl Mtg Assn Cpn Fnrma		2/28/2008	\$ 53,000.00	2/12/2011	\$ 52,959.72
Strips-Tint-US Treasury		1/30/2009	\$ 62,000.00	2/15/2011	\$ 61,992.56
"		2/20/2009	\$ 190,000.00	2/15/2011	\$ 189,977.20
"		2/26/2009	\$ 224,000.00	2/15/2011	\$ 223,973.12
"		3/2/2009	\$ 78,000.00	2/15/2011	\$ 77,990.64
"		3/13/2009	\$ 250,000.00	2/15/2011	\$ 249,970.00
"		5/21/2009	\$ 160,000.00	2/15/2011	\$ 159,980.80
Federal Home Loan Bank Const		11/12/2008	\$ 45,000.00	3/11/2011	\$ 45,221.40
Federal Home Loan Mtg Corp		3/23/2009	\$ 10,000.00	3/23/2009	\$ 9,985.80
Financing Corp Cpn FICO		2/12/2008	\$ 100,000.00	4/6/2011	\$ 99,834.00
"		2/13/2008	\$ 100,000.00	4/6/2011	\$ 99,834.00
"		2/15/2008	\$ 28,000.00	4/6/2011	\$ 27,953.52
FICO Zero Cpn		3/18/2008	\$ 31,000.00	5/2/2011	\$ 30,931.80
Federal Natl Assn Global		3/11/2008	\$ 20,000.00	5/15/2011	\$ 19,943.40
"		3/12/2008	\$ 15,000.00	5/15/2011	\$ 14,957.55
"		4/16/2008	\$ 22,000.00	5/15/2011	\$ 21,937.74

		DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Government Trust Certificate Zero Cpn		5/29/2008	\$ 10,000.00	5/15/2011	\$ 9,960.70
"		11/28/2007	\$ 28,000.00	5/15/2011	\$ 27,889.96
"		1/4/2008	\$ 19,000.00	5/15/2011	\$ 18,925.33
"		2/25/2008	\$ 20,000.00	5/15/2011	\$ 19,921.40
"		4/1/2008	\$ 11,000.00	5/15/2011	\$ 10,956.77
"		4/22/2008	\$ 17,000.00	5/15/2011	\$ 16,933.19
Strips-Tint-U S Treasury					
"		1/29/2009	\$ 145,000.00	5/15/2011	\$ 144,905.75
"		3/3/2009	\$ 67,000.00	5/15/2011	\$ 66,956.45
Federal Natl Mtg Assn Debs					
"		8/6/2008	\$ 100,000.00	5/19/2011	\$ 101,220.00
Federal Home Loan Mtg Corp					
"		4/15/2008	\$ 9,000.00	7/15/2011	\$ 8,961.12
"		6/5/2008	\$ 13,000.00	7/15/2011	\$ 12,943.84
"		6/9/2008	\$ 13,000.00	7/15/2011	\$ 12,943.84
Federal Home Loan Mtg Corp Cpn					
"		3/3/2008	\$ 100,000.00	7/15/2011	\$ 99,568.00
"		3/5/2008	\$ 100,000.00	7/15/2011	\$ 99,568.00
"		3/7/2008	\$ 100,000.00	7/15/2011	\$ 99,568.00
Federal Natl Mtg Assn Cpn					
"		2/14/2008	\$ 31,000.00	7/15/2011	\$ 30,866.08
"		3/18/2008	\$ 42,000.00	7/15/2011	\$ 41,818.56
Agency Strips Ser 1 Int					
"		1/28/2008	\$ 20,000.00	8/12/2011	\$ 19,899.80
"		3/7/2008	\$ 22,000.00	8/12/2011	\$ 21,889.78
Federal Judiciary Office Bldg TR Zero					
"		1/17/2008	\$ 50,000.00	8/15/2011	\$ 49,653.00
"		3/3/2008	\$ 13,000.00	8/15/2011	\$ 12,909.78
"		6/6/2008	\$ 10,000.00	8/15/2011	\$ 9,930.60

		DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Strips-Tint-US Treasury Int		5/21/2008	\$ 100,000.00	8/15/2011	\$ 99,857.00
"		7/9/2008	\$ 10,000.00	8/15/2011	\$ 9,985.70
"		7/10/2008	\$ 100,000.00	8/15/2011	\$ 99,857.00
"		8/5/2008	\$ 20,000.00	8/15/2011	\$ 19,971.40
"		8/6/2008	\$ 10,000.00	8/15/2001	\$ 9,985.70
"		8/11/2008	\$ 10,000.00	8/15/2011	\$ 9,985.70
"		8/12/2008	\$ 100,000.00	8/15/2011	\$ 99,857.00
"		8/13/2008	\$ 100,000.00	8/15/2011	\$ 99,857.00
"		8/19/2008	\$ 10,000.00	8/15/2011	\$ 9,985.70
"		9/5/2008	\$ 11,000.00	8/15/2011	\$ 10,984.27
"		11/12/2008	\$ 100,000.00	8/15/2011	\$ 99,857.00
"		11/12/2008	\$ 84,000.00	8/15/2011	\$ 83,879.88
"		11/12/2008	\$ 50,000.00	8/15/2011	\$ 49,928.50
Strips-Tint-US Treasury Int		1/27/2009	\$ 150,000.00	8/15/2011	\$ 149,785.50
"		2/20/2009	\$ 150,000.00	8/15/2011	\$ 149,785.50
"		3/2/2009	\$ 50,000.00	8/15/2011	\$ 49,928.50
"		3/10/2009	\$ 200,000.00	8/15/2011	\$ 199,714.00
"		3/16/2009	\$ 100,000.00	8/15/2011	\$ 99,857.00
"		4/6/2009	\$ 200,000.00	8/15/2011	\$ 199,714.00
"		6/16/2009	\$ 200,000.00	8/15/2011	\$ 199,714.00
Federal Natl Mtg Assn Med		3/7/2008	\$ 39,000.00	9/23/2011	\$ 38,766.00
Financing Corp Fed Bk		1/29/2008	\$ 55,000.00	9/26/2011	\$ 54,705.75
Financing Corp Cpn FICO		2/19/2008	\$ 70,000.00	10/5/2011	\$ 69,612.20
Federal Natl Mtg Assn Med		3/19/2008	\$ 100,000.00	10/8/2011	\$ 99,364.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
"	3/20/2008	\$ 50,000.00	10/8/2011	\$ 49,682.00
"	3/24/2008	\$ 38,000.00	10/8/2011	\$ 37,758.32
Resolution FDG-Ser A - Int - Pmt	3/27/2009	\$ 6,000.00	10/15/2011	\$ 5,978.34
Government Backed Trust-Zero Cpn	4/8/2008	\$ 10,000.00	11/15/2011	\$ 9,902.00
Strips-Tint-U S Treasury	9/16/2008	\$ 100,000.00	11/15/2011	\$ 99,793.00
"	9/18/2008	\$ 200,000.00	11/15/2011	\$ 199,586.00
Strips-Tint-US Treasury	11/14/2008	\$ 100,000.00	11/15/2011	\$ 99,793.00
"	11/14/2008	\$ 60,000.00	11/15/2011	\$ 59,875.80
"	11/25/2008	\$ 100,000.00	11/15/2011	\$ 99,793.00
"	1/29/2008	\$ 250,000.00	11/15/2011	\$ 249,482.50
"	2/23/2009	\$ 200,000.00	11/15/2011	\$ 199,586.00
"	2/26/2009	\$ 100,000.00	11/15/2011	\$ 99,793.00
"	3/4/2009	\$ 30,000.00	11/15/2011	\$ 29,937.90
"	3/17/2009	\$ 220,000.00	11/15/2011	\$ 219,544.60
Federal Natl Mtg Assn Med	3/24/2008	\$ 48,000.00	11/29/2011	\$ 47,628.48
Financing Cpn Corp	3/23/2009	\$ 10,000.00	11/30/2011	\$ 9,931.20
Financing Corp Cpn Fico Strips	3/19/2009	\$ 10,000.00	12/6/2011	\$ 9,930.90
"	5/12/2009	\$ 100,000.00	12/6/2011	\$ 99,309.00
"	6/4/2009	\$ 200,000.00	12/6/2011	\$ 198,618.00
Agency Strips Ser 1 Int Pmt	4/1/2008	\$ 27,000.00	2/12/2012	\$ 26,711.64
Federal Judiciary Office Bldg TR Zero	3/13/2008	\$ 21,000.00	2/15/2012	\$ 20,704.32
Strips-Tint-U S Treasury Int	7/30/2008	\$ 100,000.00	2/15/2012	\$ 99,584.00
"	8/28/2008	\$ 98,000.00	2/15/2012	\$ 97,592.32
"	11/13/2008	\$ 25,000.00	2/15/2012	\$ 24,896.00
"	11/17/2008	\$ 177,000.00	2/15/2012	\$ 176,263.68

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Strips-Tint-US Treasury Int	12/2/2008	\$ 190,000.00	2/15/2012	\$ 189,209.60
"	12/3/2008	\$ 300,000.00	2/15/2012	\$ 298,752.00
"	12/3/2008	\$ 151,000.00	2/15/2012	\$ 150,371.84
"	12/15/2008	\$ 79,000.00	2/15/2012	\$ 78,671.36
"	1/13/2009	\$ 300,000.00	2/15/2012	\$ 298,752.00
"	1/21/2009	\$ 100,000.00	2/15/2012	\$ 99,584.00
"	1/22/2009	\$ 25,000.00	2/15/2012	\$ 24,896.00
Strips-Tint-US Treasury Int	2/4/2009	\$ 175,000.00	2/15/2012	\$ 174,272.00
"	2/9/2009	\$ 100,000.00	2/15/2012	\$ 99,584.00
"	2/10/2009	\$ 200,000.00	2/15/2012	\$ 199,168.00
"	2/12/2009	\$ 249,000.00	2/15/2012	\$ 247,964.16
"	2/13/2009	\$ 200,000.00	2/15/2012	\$ 199,168.00
"	3/4/2009	\$ 22,000.00	2/15/2012	\$ 21,908.48
"	3/11/2009	\$ 200,000.00	2/15/2012	\$ 199,168.00
"	3/17/2009	\$ 100,000.00	2/15/2012	\$ 99,584.00
"	3/18/2009	\$ 100,000.00	2/15/2012	\$ 99,584.00
"	5/15/2009	\$ 100,000.00	2/15/2012	\$ 99,584.00
Federal Natl Mtg Assn Med	3/13/2008	\$ 60,000.00	3/23/2012	\$ 59,292.00
Federal Home Loan Bank Cons	9/3/2008	\$ 10,000.00	5/1/2012	\$ 9,895.50
Federal Natl Mtg Assn Debs	4/2/2008	\$ 40,000.00	5/15/2012	\$ 39,473.20
Govnt Backed Trust Ctf	1/28/2008	\$ 102,000.00	5/15/2012	\$ 100,244.58
Government Trust Zero Cpn	1/29/2008	\$ 10,000.00	5/15/2012	\$ 9,827.90
"	1/28/2008	\$ 44,000.00	5/15/2012	\$ 43,242.76

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Strips-Tint-US Treasury	9/10/2008	\$ 50,000.00	5/15/2012	\$ 49,745.50
"	9/12/2008	\$ 100,000.00	5/12/2012	\$ 99,491.00
"	11/10/2008	\$ 100,000.00	5/15/2012	\$ 99,491.00
"	11/18/2008	\$ 50,000.00	5/15/2012	\$ 49,745.50
"	12/4/2008	\$ 150,000.00	5/15/2012	\$ 149,236.50
"	1/13/2009	\$ 200,000.00	5/15/2012	\$ 198,982.00
"	1/20/2009	\$ 150,000.00	5/15/2012	\$ 149,236.50
"	1/21/2009	\$ 100,000.00	5/15/2012	\$ 99,491.00
"	2/2/2009	\$ 100,000.00	5/15/2012	\$ 99,491.00
"	2/3/2009	\$ 150,000.00	5/15/2012	\$ 149,236.50
Strips-Tint-US Treasury	2/5/2009	\$ 100,000.00	5/15/2012	\$ 99,491.00
"	2/6/2009	\$ 100,000.00	5/15/2012	\$ 99,491.00
"	2/9/2009	\$ 100,000.00	5/15/2012	\$ 99,491.00
"	2/10/2009	\$ 100,000.00	5/15/2012	\$ 99,491.00
"	2/11/2009	\$ 180,000.00	5/15/2012	\$ 179,083.80
"	2/17/2009	\$ 70,000.00	5/15/2012	\$ 69,643.70
"	2/24/2009	\$ 200,000.00	5/15/2012	\$ 198,982.00
"	2/27/2009	\$ 90,000.00	5/15/2012	\$ 89,541.90
"	3/4/2009	\$ 38,000.00	5/15/2012	\$ 37,806.58
"	3/10/2009	\$ 200,000.00	5/15/2012	\$ 198,982.00
"	3/16/2009	\$ 200,000.00	5/15/2012	\$ 198,982.00
"	3/18/2009	\$ 50,000.00	5/15/2012	\$ 49,745.50
"	5/19/2009	\$ 100,000.00	5/15/2012	\$ 99,491.00
"	5/28/2009	\$ 95,000.00	5/15/2012	\$ 94,516.45
Financing Corp Cpn FICO	4/2/2009	\$ 200,000.00	6/6/2012	\$ 197,636.00
"	4/21/2009	\$ 150,000.00	6/6/2012	\$ 148,227.00

		DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Home Loan Mtg Corp		8/7/2009	\$ 400,000.00	6/15/2012	\$ 407,040.00
"		8/11/2009	\$ 100,000.00	6/15/2012	\$ 101,760.00
Financing Corp Fed Bk Entry		6/26/2009	\$ 52,000.00	8/3/2012	\$ 51,224.16
United States Treas Strip		3/24/2009	\$ 220,000.00	8/15/2012	\$ 218,385.20
Strips - Tint - US Treasury		11/18/2008	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		11/19/2008	\$ 114,000.00	8/15/2012	\$ 113,003.64
"		12/5/2008	\$ 200,000.00	8/15/2012	\$ 198,252.00
"		12/9/2008	\$ 110,000.00	8/15/2012	\$ 109,038.60
"		1/2/2009	\$ 125,000.00	8/15/2012	\$ 123,907.50
"		1/6/2009	\$ 210,000.00	8/15/2012	\$ 208,164.60
Strips - Tint - US Treasury		1/15/2009	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		1/23/2009	\$ 130,000.00	8/15/2012	\$ 128,863.80
"		2/2/2009	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		2/18/2009	\$ 95,000.00	8/15/2012	\$ 94,169.70
"		3/2/2009	\$ 30,000.00	8/15/2012	\$ 29,737.80
"		3/5/2009	\$ 38,000.00	8/15/2012	\$ 37,667.88
"		3/19/2009	\$ 108,000.00	8/15/2012	\$ 107,056.08
"		5/14/2009	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		5/15/2009	\$ 93,000.00	8/15/2012	\$ 92,187.18
"		5/26/2009	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		5/28/2009	\$ 200,000.00	8/15/2012	\$ 198,252.00
Strips - Tint - US Treasury		6/3/2009	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		6/9/2009	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		6/25/2009	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		7/10/2009	\$ 100,000.00	8/15/2012	\$ 99,126.00
"		7/22/2009	\$ 94,000.00	8/15/2012	\$ 93,178.44
"		11/13/2009	\$ 300,000.00	8/15/2012	\$ 297,378.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Financing Corp Cpn Fico Strips	8/17/2009	\$ 20,000.00	9/7/2012	\$ 19,671.20
Federal National Mtg Assn Med	8/25/2009	\$ 12,000.00	9/23/2012	\$ 11,762.40
Financing Corp Fed Book	8/5/2009	\$ 20,000.00	10/6/2012	\$ 19,648.80
"	8/17/2009	\$ 20,000.00	10/6/2012	\$ 19,648.80
Financing Corp Fed Bank Entry	8/13/2009	\$ 25,000.00	11/2/2012	\$ 24,535.25
Financing Corp Cpn Fico Strips	9/23/2009	\$ 102,000.00	11/11/2012	\$ 100,066.08
Federal Natl Mtg Assn Debs	4/14/2008	\$ 31,000.00	11/15/2012	\$ 30,320.17
"	9/8/2009	\$ 22,000.00	11/15/2012	\$ 21,517.54
Government Backed Trust Zero Cpn	8/1/2008	\$ 10,000.00	11/15/2012	\$ 9,726.20
Strips - Tint - US Treasury	11/13/2008	\$ 95,000.00	11/15/2012	\$ 93,955.95
"	12/16/2008	\$ 100,000.00	11/15/2012	\$ 98,901.00
"	12/17/2008	\$ 100,000.00	11/15/2012	\$ 98,901.00
"	12/22/2008	\$ 100,000.00	11/15/2012	\$ 98,901.00
Strips - Tint - US Treasury	12/24/2008	\$ 100,000.00	11/15/2012	\$ 98,901.00
"	1/8/2009	\$ 200,000.00	11/15/2012	\$ 197,802.00
"	1/12/2009	\$ 23,000.00	11/15/2012	\$ 22,747.23
"	1/26/2009	\$ 51,000.00	11/15/2012	\$ 50,439.51
"	3/6/2009	\$ 25,000.00	11/15/2012	\$ 24,725.25
"	3/20/2009	\$ 200,000.00	11/15/2012	\$ 197,802.00
Financing Corp Cpn Fico Strips	3/23/2009	\$ 28,000.00	11/15/2012	\$ 27,692.28
"	3/30/2009	\$ 100,000.00	11/15/2012	\$ 98,901.00
"	5/18/2009	\$ 100,000.00	11/15/2012	\$ 98,901.00
"	10/1/2009	\$ 100,000.00	11/15/2012	\$ 98,901.00

		DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Financing Corp Cpn Fico Strips		8/25/2009	\$ 14,000.00	11/30/2012	\$ 13,719.72
"		7/22/2009	\$ 20,000.00	12/6/2012	\$ 19,592.20
"		11/30/2009	\$ 50,000.00	12/6/2012	\$ 48,980.50
Federal Natl Mtg Assn Strips		1/27/2010	\$ 100,000.00	1/27/2010	\$ 96,628.00
Federal Natl Mtg Assn Deb		8/21/2009	\$ 49,000.00	2/7/2013	\$ 47,660.83
Financing Corp Cpn Fico Strips		9/28/2009	\$ 25,000.00	2/8/2013	\$ 24,394.00
"		12/30/2009	\$ 35,000.00	2/8/2013	\$ 34,151.60
"		1/6/2010	\$ 11,000.00	2/8/2013	\$ 10,733.36
Agency Strips-Ser 1-Int Pmt		7/28/2009	\$ 34,000.00	2/12/2013	\$ 33,131.30
"		12/29/2009	\$ 17,000.00	2/12/2013	\$ 16,565.65
ETR-Ser 10 Cpn Int Pmt		12/22/2009	\$ 25,000.00	2/15/2013	\$ 24,467.50
"		12/28/2009	\$ 38,000.00	2/15/2013	\$ 37,190.60
Strips-Tint-U S Treasury		3/6/2009	\$ 48,000.00	2/15/2013	\$ 47,255.52
"		3/23/2009	\$ 100,000.00	2/15/2013	\$ 98,449.00
"		3/24/2009	\$ 100,000.00	2/15/2013	\$ 98,449.00
"		10/13/2009	\$ 150,000.00	2/15/2013	\$ 147,673.50
"		11/12/2009	\$ 200,000.00	2/15/2013	\$ 196,898.00
"		11/13/2009	\$ 100,000.00	2/15/2013	\$ 98,449.00
"		11/16/2009	\$ 200,000.00	2/15/2013	\$ 196,898.00
"		11/16/2009	\$ 100,000.00	2/15/2013	\$ 98,449.00
"		11/23/2009	\$ 100,000.00	2/15/2013	\$ 98,449.00
"		11/30/2009	\$ 100,000.00	2/15/2013	\$ 98,449.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Home Loan Mtg Corp	12/9/2009	\$ 50,000.00	3/15/2013	\$ 48,525.00
Financing Corp-Fed Bk Entry	2/9/2010	\$ 100,000.00	4/6/2013	\$ 97,276.00
Strips-Tint-US Treasury Int	1/5/2009	\$ 100,000.00	8/15/2013	\$ 97,622.00
"	1/27/2009	\$ 100,000.00	8/15/2013	\$ 97,622.00
"	5/3/2010	\$ 60,000.00	8/15/2013	\$ 58,573.20
Federal Home Loan Mtg Corp	6/18/2010	\$ 50,000.00	9/15/2013	\$ 47,960.00
"	6/30/2010	\$ 55,000.00	9/15/2013	\$ 52,756.00
Federal Natl Mtg Assn Debs	9/20/2010	\$ 100,000.00	11/15/2013	\$ 95,516.00
Strips Tint-U S Treasury Int	2/24/2010	\$ 100,000.00	11/15/2013	\$ 97,159.00
"	5/13/2010	\$ 200,000.00	5/13/2010	\$ 194,318.00
Federal Home Loan Bank Mtg Corp	7/30/2009	\$ 200,000.00	1/7/2014	\$ 208,006.00
Federal Natl Mtg Assn	11/1/2010	\$ 80,000.00	1/15/2014	\$ 75,976.80
Financing Corp Cpn FICO Strips	2/25/2010	\$ 100,000.00	2/3/2014	\$ 95,380.00
Federal Natl Mts Assn	8/24/2010	\$ 62,000.00	2/7/2014	\$ 58,751.20
"	11/4/2010	\$ 55,000.00	2/7/2014	\$ 52,118.00
Agency Strips - Ser 1 - Int Pmt	10/28/2010	\$ 42,000.00	2/12/2014	\$ 39,827.34
"	12/9/2010	\$ 100,000.00	2/12/2014	\$ 94,827.00
Federal National Mtg Assn Cpn	11/22/2010	\$ 10,000.00	2/12/2014	\$ 9,471.30
Financial Corp Fed Book Entry	9/24/2010	\$ 72,000.00	3/26/2014	\$ 68,323.68

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Government Backed Trust Zero Cpn	11/9/2010	\$ 95,000.00	5/15/2014	\$ 88,203.70
Federal Natl Assn Global	6/29/2010	\$ 55,000.00	8/7/2014	\$ 51,159.90
"	10/27/2010	\$ 64,000.00	8/7/2014	\$ 59,531.52
Strips-Tint-U S Treasury	6/23/2010	\$ 100,000.00	8/15/2014	\$ 94,964.00
Federal Home Loan Mtg Corp	10/14/2010	\$ 134,000.00	9/15/2014	\$ 124,152.34
Federal Natl Mtg Assn Med Term	6/28/2010	\$ 57,000.00	9/23/2014	\$ 52,766.04
Federal Natl Mtg Assn Debs	10/18/2010	\$ 95,000.00	11/15/2014	\$ 87,438.00
Strips - Tint - U S Treasury	5/21/2010	\$ 100,000.00	11/15/2014	\$ 94,176.00
Federal Home Loan Mtg Corp	1/26/2010	\$ 990,000.00	4/15/2015	\$ 990,693.00
"	6/28/2010	\$ 35,000.00	6/28/2010	\$ 31,971.80
"	10/21/2010	\$ 108,000.00	1/15/2015	\$ 98,655.84
Federal Natl Mtg Assn Debs	6/28/2010	\$ 35,000.00	1/15/2015	\$ 31,972.50
Financial Corp FICO Strips	10/8/2010	\$ 20,000.00	2/8/2015	\$ 18,363.20
Federal Natl Mtg Assn CPA	10/8/2010	\$ 38,000.00	10/8/2010	\$ 34,590.64
Federal Home Loan Mtg Corp	2/4/2010	\$ 200,000.00	2/15/2011	\$ 200,516.00
Federal Home Loan Mtg Corp	12/28/2010	\$ 60,000.00	3/15/2015	\$ 54,413.40
"	10/22/2010	\$ 50,000.00	3/15/2015	\$ 45,348.50

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Natl Mtg Assn Med Term	8/24/2010	\$ 119,000.00	4/8/2015	\$ 107,624.79
Government Backed Trust	10/25/2010	\$ 76,000.00	6/15/2015	\$ 67,554.12
Federal Home Loan Mtg Corp	8/26/2010	\$ 100,000.00	6/1/2015	\$ 89,868.00
"	9/17/2010	\$ 110,000.00	6/1/2015	\$ 98,854.80
Financing Corp Cpn Fico Strips	11/9/2010	\$ 100,000.00	6/6/2015	\$ 90,603.00
Federal Home Loan Mtg	6/16/2010	\$ 85,000.00	6/15/2015	\$ 85,580.55
"	7/1/2010	\$ 100,000.00	7/15/2015	\$ 100,408.00
Federal Home Loan Mtg Corp	7/20/2010	\$ 1,000,000.00	7/15/2015	\$ 1,003,840.00
"	10/22/2010	\$ 69,000.00	10/22/2010	\$ 61,679.10
Agency Strips - Ser 1	11/3/2010	\$ 28,000.00	8/12/2015	\$ 24,975.16
"	8/6/2010	\$ 965,000.00	8/15/2010	\$ 949,753.00
"	8/10/2010	\$ 1,000,000.00	8/15/2015	\$ 996,030.00
"	8/16/2010	\$ 30,000.00	8/15/2015	\$ 29,880.90
Federal Home Loan Bank Cons	8/16/2010	\$ 200,000.00	8/15/2015	\$ 194,084.00
"	8/17/2010	\$ 1,000,000.00	8/15/2015	\$ 970,420.00
"	8/18/2010	\$ 800,000.00	8/15/2015	\$ 776,336.00
Federal Home Loan Mtg Corp	11/29/2010	\$ 30,000.00	9/15/2015	\$ 26,607.90
"	12/27/2010	\$ 100,000.00	9/15/2015	\$ 88,693.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Home Loan Bank Cons	8/25/2010	\$ 1,000,000.00	9/23/2015	\$ 981,070.00
"	9/2/2010	\$ 200,000.00	9/23/2015	\$ 196,214.00
"	9/7/2010	\$ 1,000,000.00	9/23/2015	\$ 981,070.00
"	9/14/2010	\$ 150,000.00	9/23/2015	\$ 147,160.50
Federal Natl Mtg Assn Med Term	10/26/2010	\$ 30,000.00	9/23/2015	\$ 26,579.10
Federal Home Loan Bank Cons	9/22/2010	\$ 945,000.00	9/29/2015	\$ 927,167.85
Federal Home Loan Mtg Corp	4/7/2010	\$ 400,000.00	9/30/2015	\$ 401,136.00
Federal Home Loan Banks	9/27/2010	\$ 150,000.00	10/20/2015	\$ 145,545.00
"	10/5/2010	\$ 1,000,000.00	10/28/2015	\$ 970,150.00
"	10/18/2010	\$ 1,000,000.00	10/28/2015	\$ 970,150.00
"	10/28/2010	\$ 450,000.00	10/28/2015	\$ 436,567.50
Federal National Mtg Assn Debs	9/17/2010	\$ 55,000.00	11/15/2015	\$ 48,379.10
Federal Home Loan Bank Cons	7/22/2010	\$ 1,000,000.00	11/19/2015	\$ 998,780.00
"	7/23/2010	\$ 1,000,000.00	11/19/2015	\$ 998,780.00
"	11/8/2010	\$ 500,000.00	11/24/2015	\$ 481,340.00
"	11/12/2010	\$ 200,000.00	11/24/2015	\$ 192,536.00
"	11/16/2010	\$ 100,000.00	11/24/2015	\$ 96,268.00
"	11/23/2010	\$ 500,000.00	11/24/2015	\$ 482,310.00
"	11/24/2010	\$ 100,000.00	11/24/2015	\$ 96,462.00
"	11/26/2010	\$ 200,000.00	11/24/2015	\$ 192,924.00
"	9/24/2010	\$ 100,000.00	12/16/2015	\$ 97,520.00

	DATE ACQUIRED	AMOUNT	MATURITY DATE	CURRENT VALUE
Federal Home Loan Mtg Corp	6/21/2010	\$ 300,000.00	12/30/2015	\$ 301,881.00
Federal Natl Mtg Assn Med Term	6/28/2010	\$ 200,000.00	12/30/2015	\$ 200,626.00
"	10/28/2010	\$ 72,000.00	10/28/2015	\$ 62,841.60
Federal Home Loan Mtg Corp	11/1/2010	\$ 65,000.00	2/1/2016	\$ 56,609.80
"	12/23/2010	\$ 65,000.00	2/1/2016	\$ 56,609.80
Agency Strips -Ser 1	10/29/2010	\$ 100,000.00	2/12/2016	\$ 87,166.00
Federal Natl Mtg Assn	11/4/2010	\$ 45,000.00	2/12/2016	\$ 39,132.45
Federal Home Loan Mtg Corp	11/2/2010	\$ 100,000.00	3/15/2016	\$ 86,589.00
Federal Natl Mtg Assn Med	11/12/2010	\$ 65,000.00	9/15/2016	\$ 56,208.10
Federal Home Loan Mtg Corp	12/6/2010	\$ 205,000.00	9/15/2016	\$ 172,714.55
Federal Natl Mtg Assn Med	11/10/2010	\$ 200,000.00	9/23/2016	\$ 168,234.00
Federal Home Loan Bank	11/17/2010	\$ 100,000.00	11/17/2010	\$ 97,135.00
Federal Home Loan Bank Cons	9/17/2010	\$ 200,000.00	12/29/2017	\$ 195,364.00
Federal Home Loan Mtg Corp	12/9/2010	\$ 55,000.00	12/30/2022	\$ 54,698.05
Federal Home Loan Banks	11/5/2010	\$ 200,000.00	11/24/2025	\$ 188,630.00
TOTAL		\$ 41,187,000.00		\$ 40,440,840.95

RATES OF RETURN SUMMARY

IN PERCENT

PERIODS GREATER THAN ONE YEAR ARE ANNUALIZED

12/31/09 – 12/30/10

	<u>AGGREGATE</u>
TENNESSEE LIFE & HEALTH TOTAL FUND	* 1.3751%
90-DAY T BILLS	.14%
1 YR TREASURY INDEX	.32%
2 YR TREASURY INDEX	.71%
FED FUNDS	.18291%
3 YR TREASURY INDEX	1.07%
TREASURY/AGENCY 1-3 YEAR INDEX	2.34%
1.200%	
+ <u>.1751% ACCRUED INTEREST</u>	
1.3751% TOTAL RETURN FOR YTD 2010	

**TENNESSEE LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION**

**AUDITED FINANCIAL STATEMENTS
and
OTHER FINANCIAL INFORMATION**

December 31, 2010 and 2009

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

AUDITED FINANCIAL STATEMENTS and OTHER FINANCIAL INFORMATION

December 31, 2010 and 2009

	<u>Page</u>
Report of Independent Auditors.....	1
 <u>AUDITED FINANCIAL STATEMENTS</u>	
Statements of Cash Receipts and Disbursements, and Changes in Fund Balance.....	2
Notes to Financial Statements	3
 <u>OTHER FINANCIAL INFORMATION</u>	
Report of Independent Auditors on Other Financial Information.....	11
Combining Statements of Cash Disbursements:	
Year Ended December 31, 2010	12
Year Ended December 31, 2009	13

FAULKNER MACKIE & COCHRAN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

One American Center
3100 West End Avenue, Suite 700
Nashville, Tennessee 37203-1372

Telephone: (615) 292-3011
Fax: (615) 269-9047
Website: www.fmccpa.com

Report of Independent Auditors

To the Board of Directors
Tennessee Life and Health Insurance
Guaranty Association
Nashville, Tennessee

We have audited the accompanying statements of cash receipts and disbursements, and changes in fund balance of the Tennessee Life and Health Insurance Guaranty Association (the Association) for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, these financial statements have been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash receipts and disbursements, and changes in fund balance of the Association for the years ended December 31, 2010 and 2009, on the basis of accounting described in Note 1.

Faulkner Mackie & Cochran, P.C.

April 11, 2011

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

STATEMENTS OF CASH RECEIPTS AND DISBURSEMENTS, AND CHANGES IN FUND BALANCE

	Year Ended December 31	
	2010	2009
Receipts		
Assessments:		
Class A for general administrative expenses	\$ 150	\$ 150
Class B for specific insurer insolvencies	2,731,081	0
Total assessments	<u>2,731,231</u>	<u>150</u>
Estate settlements:		
Life	204,033	5,680
Annuity	4,197	499,323
Health	1,223,501	126,938
Total estate settlements	<u>1,431,731</u>	<u>631,941</u>
Interest	564,177	765,384
Premiums received	<u>17,202</u>	<u>0</u>
Total receipts	<u>4,744,341</u>	<u>1,397,475</u>
Disbursements		
Claims paid:		
Life	801,181	983,398
Annuity	289,013	322,133
Health	176,764	133,071
Total claims paid	<u>1,266,958</u>	<u>1,438,602</u>
Return of prior estate settlements	<u>109,467</u>	<u>0</u>
Administrative fees for specific insurer insolvencies	<u>360,246</u>	<u>99,585</u>
General administrative expenses:		
Dues	53,355	53,505
Outside services	133,858	102,130
Other	22,867	11,707
Total general administrative expenses	<u>210,080</u>	<u>167,342</u>
Total disbursements	<u>1,946,751</u>	<u>1,705,529</u>
Excess (deficit) of receipts over disbursements	\$ 2,797,590	\$ (308,054)
Fund balance at beginning of year	38,065,515	38,692,653
Change in unrealized value of investments	<u>(82,146)</u>	<u>(319,084)</u>
Fund balance at end of year (Note 2)	<u>\$ 40,780,959</u>	<u>\$ 38,065,515</u>

See accompanying notes to financial statements.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background: The Tennessee Life and Health Insurance Guaranty Association (the "Association") was created by the Tennessee legislature, effective July 1, 1989, to pay the claims and other contractual obligations on existing policies of insolvent life and health insurance companies. Members of the Association include all insurers licensed to write life and health insurance in Tennessee. The Association has no employees; therefore, the Board of Directors has appointed independent contractors to assist with routine operational matters.

Basis of Accounting and Reporting: It is the policy of the Association to prepare its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). Under the cash receipts and disbursements basis of accounting, income is recognized when received and expenses are recognized when paid. Under GAAP, income is recognized when earned and expenses are recognized when incurred. The financial effect of this difference and any other difference from GAAP has not been determined. Receipts and disbursements related to sales and purchases of investments net to zero and are not reflected in the accompanying financial statements.

Cash Equivalents and Investments: Cash equivalents include highly-liquid, interest-bearing instruments with an original maturity of three months or less at the time of purchase. Cash equivalents are recorded at cost, which approximates fair value. Investments primarily include government bonds and are carried at fair value as established by the Association's broker, Morgan Stanley Smith Barney, utilizing Bloomberg financial services.

Assessments: The Association may levy two types of assessments. Class A assessments are levied to cover the general administrative expenses of the Association. There were no Class A assessments levied during 2010 or 2009; however the Association levied a Class A assessment in January 2011 for the years 2010 and 2011. Class B assessments are levied to cover anticipated claims, legal and administrative expenses related to specific insurer insolvencies. There was a Class B assessment of approximately \$2.7 million levied to all health insurers during 2010. There was no Class B assessment in 2009.

Income Taxes: The Association operates as a tax-exempt organization under section 501(c)(6) of the Internal Revenue Code. In accordance with requirements of the Income Taxes Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification, the Association reviews tax positions taken or expected to be taken in a tax return to determine whether or not there is uncertainty that the tax position will ultimately be sustained upon examination. This review did not result in identification of any uncertain tax positions at December 31, 2010 and 2009.

Subsequent Events: Management has evaluated subsequent events through April 11, 2011, the date the financial statements were available to be issued.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 2 – FUND BALANCE

The Association's fund balance consists of cash, cash equivalents and investments as follows:

	<u>Class A</u>	<u>Class B</u>	<u>Total</u>
At December 31, 2010:			
Cash at First Tennessee Bank	\$ 1,691	\$ 206,639	\$ 208,330
Morgan Stanley Smith Barney:			
Cash equivalents	60,801	10,068	70,869
Government bonds	<u>0</u>	<u>40,501,760</u>	<u>40,501,760</u>
Total at Morgan Stanley Smith Barney	<u>60,801</u>	<u>40,511,828</u>	<u>40,572,629</u>
Total cash, cash equivalents and investments	<u>\$ 62,492</u>	<u>\$ 40,718,467</u>	<u>\$ 40,780,959</u>

At December 31, 2009:

Cash at First Tennessee Bank	\$ 145,873	\$ 107,910	\$ 253,783
Morgan Stanley Smith Barney:			
Cash equivalents	120,781	15,618	136,399
Government bonds	<u>0</u>	<u>37,675,333</u>	<u>37,675,333</u>
Total at Morgan Stanley Smith Barney	<u>120,781</u>	<u>37,690,951</u>	<u>37,811,732</u>
Total cash, cash equivalents and investments	<u>\$ 266,654</u>	<u>\$ 37,798,861</u>	<u>\$ 38,065,515</u>

Maturities of Government Bonds: The cost and fair value of government bonds, categorized by contractual maturities, are as follows at December 31, 2010:

<u>Years to Maturity</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Percent of Total</u>
One or less	\$ 5,945,403	\$ 6,191,476	15.3%
After one through two	11,115,028	11,540,758	28.5%
After two through five	21,642,652	21,447,594	52.9%
After five	<u>1,382,156</u>	<u>1,321,932</u>	<u>3.3%</u>
Total government bonds	<u>\$ 40,085,239</u>	<u>\$ 40,501,760</u>	<u>100.0%</u>

The weighted average maturity for government bonds at December 31, 2010 and 2009 was 36 and 27 months, respectively.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 2 – FUND BALANCE - Continued

Unrealized Gains and Losses of Investments: Comparative aggregate values for the Association's investments, including gross unrealized gains and losses, are summarized as follows:

	<u>Original Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
At December 31, 2010:				
Government bonds	\$ 40,085,239	\$ 754,511	\$ 398,909	\$40,440,841
Accrued interest on zero coupon bonds				<u>60,919</u>
Total				<u><u>\$40,501,760</u></u>
At December 31, 2009:				
Government bonds	\$ 37,176,664	\$ 467,013	\$ 68,834	\$37,574,843
Accrued interest on zero coupon bonds				<u>100,490</u>
Total				<u><u>\$37,675,333</u></u>

The Association monitors its investment portfolio to identify securities that have been in a continuous unrealized loss position for at least twelve months, or that have a significant unrealized loss relative to cost, in considering whether such decline in fair value should be recognized as an "other-than-temporary" impairment. For the debt securities in the Association's portfolio, factors considered in this evaluation include whether the Association intends to sell the security or will, more-likely-than-not, have to sell the security before its fair value is recovered. At December 31, 2010 and 2009, the Association has determined that it intends to hold the securities until maturity or call date and that there is sufficient liquidity to preclude the need to sell a security before fair value has been recovered. As a result, recognition of an "other-than-temporary" impairment loss was unnecessary.

Restricted Use of Funds: As indicated in Note 1, the Association, having assumed policyholder obligations of insolvent insurers, is a creditor of the estates of such insurers. Accordingly, cash and investments primarily represent the net accumulation of distributions received from the estates of insolvent insurers over policyholder obligations paid. These funds may be used to fund future insolvency expenses or refunded to members who paid Class B assessments to cover policyholder obligations.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value measurements are generally based upon observable and unobservable inputs. Observable inputs are based on market data from independent sources, while unobservable inputs reflect the management's view of market assumptions in the absence of observable market information. In accordance with requirements of the Fair Value Topic of the FASB Accounting Standards Codification, all cash equivalents and investments of the Association that are carried at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Quoted market prices for similar assets or liabilities in active markets; quoted prices by independent pricing services for identical or similar assets or liabilities in markets that are not active; and valuations, using models or other valuation techniques, that use observable market data. All significant inputs are observable, or derived from observable information in the marketplace, or are supported by observable levels at which transactions are executed in the market place.

Level 3: Instruments that use non-binding broker quotes or model driven valuations that do not have observable market data.

The following table presents the fair value measurements for each major category of cash equivalents and investments that are measured on a recurring basis:

	<u>Fair Value Measurements Using</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
At December 31, 2010:				
Cash equivalents	\$ 70,869	\$ 0	\$ 0	\$ 70,869
Government bonds	<u>0</u>	<u>40,501,760</u>	<u>0</u>	<u>40,501,760</u>
Total	<u>\$ 70,869</u>	<u>\$ 40,501,760</u>	<u>\$ 0</u>	<u>\$40,572,629</u>
At December 31, 2009:				
Cash equivalents	\$ 136,399	\$ 0	\$ 0	\$ 136,399
Government bonds	<u>0</u>	<u>37,675,333</u>	<u>0</u>	<u>37,675,333</u>
Total	<u>\$ 136,399</u>	<u>\$ 37,675,333</u>	<u>\$ 0</u>	<u>\$37,811,732</u>

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 4 – ESTATE SETTLEMENTS

Estate settlements were received from the following insurer insolvencies:

	<u>2010</u>	<u>2009</u>
American Chambers Life Insurance Company	\$ 571,010	\$ 0
American Western Life Insurance Company	361	0
Benicorp Insurance Company	581,964	0
Executive Life Insurance Company	4,568	9,311
Life Assurance Company of Pennsylvania	2,404	0
Life and Health Insurance Company of America	51,645	122,335
Lincoln Memorial Life Insurance Company	201,258	0
National Heritage Life Insurance Company	0	495,692
Reliance Insurance Company	0	3,938
Shelby Casualty Insurance Company	0	665
States General Life Insurance Company	<u>18,521</u>	<u>0</u>
Total	<u>\$ 1,431,731</u>	<u>\$ 631,941</u>

NOTE 5 – CONTINGENCIES

At times, cash balances in the Association's bank accounts may exceed the FDIC insurance limit of \$250,000.

The Association is involved in litigation pursuant to matters which arise relative to the Association's responsibilities to settle or otherwise resolve asserted and unasserted claims against insolvent insurers. The Association has also been informed of the possibility of other companies becoming "insolvent insurers" and of various potential covered claims, the magnitude of which cannot be currently estimated until such claims are formally asserted against the Association. The effects, if any, of such claims and corresponding assessments will be reflected in the financial statements of the Association when paid or received.

The Patient Protection and Affordable Care Act (the "Act") was signed into law by the President of the United States on March 23, 2010. This legislation will change the national health care landscape for years to come. As a result, management believes the Act will impact insurance companies that provide health coverage, once the changes specified in the Act are implemented. However, the ultimate impact on the Association and its member companies is not currently determinable.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 6 – INSURER INSOLVENCIES

Since the creation of the Association, the Board of Directors has dealt with the following 50 insurer insolvencies:

<u>Company Name</u>	<u>Year of Insolvency</u>
Universal Life Insurance Company / Booker T. Washington Insurance Company	2010
Medical Savings Insurance Company	2009
Lincoln Memorial Life Insurance Company	2008
Benicorp Insurance Company	2007
Shelby Casualty Insurance Company	2006
States General Life Insurance Company	2005
Life and Health Insurance Company of America	2004
London Pacific Life and Annuity Company	2004
Legion/Villanova Insurance Company	2002
Reliance Insurance Company	2001
American Chambers Life Insurance Company	2000
National Affiliated Investors Insurance Company	2000
First National Life Insurance Company of America	1999
Franklin American Life Insurance Company	1999
International Financial Services Life Insurance Company	1999
Settlers Life Insurance Company	1999
Statesman National Life Insurance Company	1999
Centennial Life Insurance Company	1998
American Western Life Insurance Company	1997
First National Life Insurance Company	1997
Florida Life Insurance Company	1997
Coastal States Life Insurance Company	1996
National American Life Insurance Company	1996
National Heritage Life Insurance Company	1995
Confederation Life Insurance Company	1994
Integrated Resources Life Insurance Company	1994
Kentucky Central Life Insurance Company	1994
Mutual Benefit Life Insurance Company	1994
Old Colony Life Insurance Company	1994
Pacific Standard Life Insurance Company	1994
Summit National Life Insurance Company	1994
American Integrity Insurance Company	1993
Andrew Jackson Life Insurance Company	1993
Atlantic and Pacific Life Insurance Company of America	1993
Georgia Life and Health Insurance Company	1993
Investment Life Insurance Company of America	1993
New Jersey Life Insurance Company	1993
Executive Life Insurance Company	1991

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2010 and 2009

NOTE 6 – INSURER INSOLVENCIES – Continued

George Washington Life Insurance Company	1991
Guarantee Security Life Insurance Company	1991
Inter-American Insurance Company of Illinois	1991
Legacy Life Insurance Company	1991
Midwest Life Insurance Company	1991
Mutual Security Life Insurance Company	1991
Underwriters Life Insurance Company	1991
United Equitable Life Insurance Company	1991
Life of Indiana Insurance Company	1990
Amalgamated Labor Life Insurance Company	1989
American Sun Life Insurance Company	1989
Diamond Benefits Life/Life Assurance Company of Pennsylvania	1988

OTHER FINANCIAL INFORMATION

FAULKNER MACKIE & COCHRAN, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

One American Center
3100 West End Avenue, Suite 700
Nashville, Tennessee 37203-1372

Telephone: (615) 292-3011
Fax: (615) 269-9047
Website: www.fmccpa.com

Report of Independent Auditors On Other Financial Information

To the Board of Directors
Tennessee Life and Health Insurance
Guaranty Association
Nashville, Tennessee

Our report on our audits of the statements of cash receipts and disbursements, and changes in fund balance of the Tennessee Life and Health Insurance Guaranty Association for the years ended December 31, 2010 and 2009, appears on page 1 of this document. We conducted our audits in accordance with auditing standards generally accepted in the United States of America for the purpose of forming an opinion on the basic financial statements taken as a whole.

The accompanying combining statements of cash disbursements for the years ended December 31, 2010 and 2009, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Faulkner Mackie & Cochran, P.C.

April 11, 2011

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

COMBINING STATEMENT OF CASH DISBURSEMENTS

Year ended December 31, 2010

	General and Administrative Account	Executive Life Insurance Company (CA)	Life and Health Insurance Company of America	Franklin American Life Insurance Company	Lincoln Memorial Insurance Company	National States Insurance Company	Reliance Insurance Company	Other Insolvency Accounts	Total
Claims paid:									
Life	\$ 0	\$ 430,053	\$ 0	\$ 16,780	\$ 0	\$ 295,314	\$ 0	\$ 59,034	\$ 801,181
Annuity	0	289,013	0	0	0	0	0	0	289,013
Health	0	0	90,924	0	0	83,575	0	2,265	176,764
Total claims paid	0	719,066	90,924	16,780	0	378,889	0	61,299	1,266,958
Return of prior estate settlements	0	0	0	0	0	0	109,467	0	109,467
Administrative fees for specific insurer insolvencies	0	17,314	(1,869)	76,638	89,228	10,112	58	168,765	360,246
General administrative expenses:									
Dues	53,355	0	0	0	0	0	0	0	53,355
Outside services	133,858	0	0	0	0	0	0	0	133,858
Other	22,867	0	0	0	0	0	0	0	22,867
Total general administrative expenses	210,080	0	0	0	0	0	0	0	210,080
Total disbursements	\$ 210,080	\$ 736,380	\$ 89,055	\$ 93,418	\$ 89,228	\$ 389,001	\$ 109,525	\$ 230,064	\$ 1,946,751

See report of independent auditors on other financial information.

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION

COMBINING STATEMENT OF CASH DISBURSEMENTS

Year ended December 31, 2009

	General and Administrative Account	Executive Life Insurance Company (CA)	Life and Health Insurance Company of America	Franklin American Life Insurance Company	Benicorp Insurance Company	Lincoln Memorial Insurance Company	Other Insolvency Accounts	Total
Claims paid:								
Life	\$ 0	\$ 483,398	\$ 0	\$ 0	\$ 0	\$ 500,000	\$ 0	\$ 983,398
Annuity	0	322,266	0	0	0	0	(133)	322,133
Health	0	0	93,256	0	37,353	0	2,462	133,071
Total claims paid	0	805,664	93,256	0	37,353	500,000	2,329	1,438,602
Administrative fees for specific insurer insolvencies	0	15,279	3,059	19,770	940	6,842	53,695	99,585
General administrative expenses:								
Dues	53,505	0	0	0	0	0	0	53,505
Outside services	102,130	0	0	0	0	0	0	102,130
Other	11,707	0	0	0	0	0	0	11,707
Total general administrative expenses	167,342	0	0	0	0	0	0	167,342
Total disbursements	\$ 167,342	\$ 820,943	\$ 96,315	\$ 19,770	\$ 38,293	\$ 506,842	\$ 56,024	\$ 1,705,529

Exhibit 3

REPORT ON EXAMINATION

of the

**TENNESSEE LIFE AND HEALTH INSURANCE
GUARANTY ASSOCIATION**

Nashville, Tennessee

as of

December 31, 2008

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

Nashville, Tennessee

RECEIVED

APR 29 2011

Dept. of Commerce & Insurance
Company Examinations

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation	1
Introduction.....	1
Scope of Examination.....	1
Company History	2
Charter and Bylaws	2
Management and Control	2
Corporate Records	4
Fidelity Bond and Other Insurance	4
Territory	4
Plan of Operation	5
Market Conduct Activities	7
Reinsurance	7
Retirement Plan and Other Employee Benefits	7
Loss Experience	7
Accounts and Records	7
Statutory Deposits	8
Pecuniary Interest.....	8
Litigation	8
Financial Statement.....	9
Analysis of Changes in Financial Statement and Comments Resulting from Examination.....	11
Comments and Recommendations	11
Conclusion.....	12
Affidavit.....	13

Nashville, Tennessee
April 29, 2011

Commissioner Julie Mix McPeak
Tennessee Department of Commerce and Insurance
Davy Crockett Tower, Fifth Floor
500 James Robertson Parkway
Nashville, Tennessee 37243-0565

Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws and Regulations, and Resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination was made of the condition and affairs of:

TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION
Nashville, Tennessee

(hereinafter referred to as the Association) as of December 31, 2008, and a report thereon is hereby respectfully submitted.

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee and commenced on March 15, 2010. The examination was conducted by duly authorized representatives of the Tennessee Department of Commerce and Insurance. The last previous examination contained no criticism; hence there are no matters to report with respect to corrective measures or Department requirements arising as a result of such examination.

SCOPE OF EXAMINATION

The period covered hereunder is from December 31, 2003, the date of the last examination, to the close of business on December 31, 2008, the date of this examination. During the course of the examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2008. The financial condition of the Association and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

An examination was also made into the following matters:

History and Organization
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Territory
Plan of Operation
Market Conduct Activities
Reinsurance
Retirement Plan and Other Employee Benefits
Loss Experience
Accounts and Records
Statutory Deposits
Litigation
Financial Statement

They are discussed in detail as follows:

HISTORY AND ORGANIZATION

The Association was organized pursuant to and operates in accordance with the Tennessee Life and Health Insurance Guaranty Association Act, effective July 1, 1989. Under the provisions of this Act, the Commissioner of Insurance appointed nine members to the Board of Directors. These nine members then submitted a Plan of Operation to the Commissioner of Insurance, which was approved effective July 1, 1989.

CHARTER AND BYLAWS

No Charter or Bylaws are required to be filed as the Association was organized and operates in accordance with the Tennessee Life and Health Insurance Guaranty Association Act, and the Association filed its Plan of Operation as required in 1989.

MANAGEMENT AND CONTROL

The Board of Directors is elected by member insurers as provided in Tenn. Code Ann. § 56-12-206. Regular meetings and special meetings of the Board of Directors may be held upon the request of any two Board members. The Plan of Operation also states that the Board shall meet annually in the month of October, and also upon notice from the Commissioner of any insolvency of a member insurer.

The majority of the Board shall constitute a quorum for the transaction of business and the acts of a majority of the Board members present at a meeting shall be the acts of the Board. The following were duly appointed Directors at December 31, 2008:

<u>Name</u>	<u>Representative/Address</u>
(1) American General Life and Accident Insurance Company	Sharon K. Roberson Chief Counsel Nashville, TN
(2) Tennessee Farmers Life Insurance Company	Edward K. Lancaster General Counsel and Secretary Columbia, TN
(3) Plateau Insurance Company	William Dickson Williams President Crossville, TN
Blue Cross Blue Shield of Tennessee	J. Barclay Phillips Director and Associate General Counsel Nashville, TN
Unum Group	Elizabeth H. Simon Assistant Vice President and Senior Counsel Chattanooga, TN
Connecticut General Life Insurance Company	John Sorrow President, Mid South Region Chattanooga, TN
Prudential Insurance Company Of America	Michael A. Jennings Vice President, Government Affairs Jacksonville, FL
State Farm Life Insurance Company	Jeff Shay Vice President – Operations Murfreesboro, TN
Protective Life Insurance Company	Barrie Balzli Stokes Associate Counsel Birmingham, AL
(1) Chairman of the Board	
(2) Vice Chairman of the Board	
(3) Secretary/Treasurer of the Board	

During the period under review, the Board held seven meetings. Additionally, on the date specified in the Plan of Operation, the Association held five annual meetings.

The Association, at its annual board meeting, considers the appointment for the following

year of an individual to serve as the administrator for the Association's activities. Mr. Dan Elrod, a partner with the law firm Miller & Martin, PLLC has served in this capacity since the inception of the Association and has been approved to serve for the next year. Mr. Elrod is retained on an annual basis pursuant to Board approval of a letter of engagement. The Association reimburses the law firm for time spent by Mr. Elrod and his assistant, Ms. Renee Birdwell, related to the Association. The law firm also provides office space to the Association for \$200 per month.

CORPORATE RECORDS

Minutes of the meetings of the members and Board of Directors of the Association were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

The Association did not have employee dishonesty coverage for the period under examination. However, the administrative staff of the Association is covered by the Professional Liability policy of their employer, Miller & Martin PLLC, attorneys at law, Nashville, Tennessee.

The Association did not have Directors and Officers Liability or Errors and Omissions Coverage for the period under examination. Tenn. Code Ann. § 56-12-216 provides:

- a) There shall be no liability on the part of and no cause of action of any nature shall arise against any member insurer, the association or its agents or employees, the board of directors, or the commissioner or his representatives for any actions taken by them in the performance of their powers and duties under this part.
- b) Such immunity shall extend to the participation in any organization of one or more state associations of similar purposes and to any such organization and its agents or employees.

TERRITORY

The Association is composed of all insurance companies authorized to write life, annuity or accident and health business in Tennessee. The Association provides coverage to Tennessee residents who are insured by, or beneficiaries of, insurance policies issued by member companies. The Association's responsibility to Tennessee residents with respect to insolvent companies is determined by line of business as follows:

Life
Annuity

Health

Life and annuity contracts issued in connection with plans qualified under Internal Revenue Code, Section 403 (b).

PLAN OF OPERATION

The operations of the Association are governed by the Tennessee Life and Health Insurance Guaranty Association Act (Tenn. Code Ann. § 56-12-201, et seq.) (the "Act") and its Plan of Operation adopted pursuant to the Act and approved by the Commissioner. The Association is composed of all insurance companies authorized to write life, annuity or accident and health business in Tennessee. The Association is governed by a Board of Directors composed of nine member companies elected by the members and approved by the Commissioner. The Board of Directors has created an Executive Committee, Nominating Committee and Audit Committee to facilitate the administration of the Association. The Association provides coverage to Tennessee residents who are insured by, or beneficiaries of, insurance policies issued by member companies.

The obligations of the Association to provide coverage are triggered upon a finding of insolvency and an order of liquidation with respect to a member company. The Act also provides limited, discretionary authority for the Association to provide coverage in the event a member company becomes impaired, but to date, the Association has not exercised this discretionary authority, and has provided coverage only in the event of insolvency and liquidation.

The limits of coverage provided by the Association to Tennessee residents are as follows:

- \$300,000 in life insurance death benefits
- \$100,000 in cash surrender or present value in annuity benefits
- \$100,000 in health insurance benefits
- \$300,000 aggregate limit for all benefits with respect to any one life

The Association's responsibility to Tennessee residents with respect to insolvent companies is determined by line of business as follows:

Life

Annuity

Health

Life and annuity contracts issued in connection with plans qualified under Internal Revenue Code, Section 403 (b).

The Association's responsibilities to provide coverage to Tennessee residents are funded by pro rata assessments of member companies. Each member's share of an assessment is determined according to the following pro-rata formula:

Member company's Tennessee premium for the three years prior

to the date of insolvency for the affected line of business – divided by
Tennessee premium for all companies for the affected line of business

The Association's capacity to assess member companies is limited by calendar year to two percent of each company's average annual premium for the three years prior to the date of insolvency.

In providing coverage to Tennessee residents, the Association is authorized to pay claims, reinsure the business of the insolvent company and to issue substitute coverage. The Association is also authorized to participate in other organizations with respect to multi-state insolvencies. The Association is a member of the National Organization of Life and Health Guaranty Associations (NOLHGA), which is an umbrella organization composed of the state life and health guaranty associations. NOLHGA coordinates the efforts of its members in dealing with multi-state insolvencies. All of the insolvencies affecting the Association during the current examination period have been multi-state and only one of the insolvencies, Franklin American Life Insurance Company, was a company domiciled in Tennessee. In most instances, the Association has met its obligation to Tennessee residents by participating financially in assumption reinsurance arrangements pursuant to which financially sound companies have reinsured the policy obligations of the insolvent companies.

Insolvencies and Impairments as of 12/31/2008

<u>Insolvent/Impaired Company Name</u>	<u>Date of Insolvency/Impairment</u>
American Chambers Life Insurance Company	05/08/00
Benicorp Insurance Company	10/05/07
Diamond Benefits Life/Life Assurance Co. of PA	12/88 and 01/10/91
Executive Life Insurance Company (CA)	12/06/91
Executive Life Insurance Company of New York	1991 – rehab
First National Life Insurance Company of America	06/29/99
Franklin America Life Insurance Company	10/25/99
Guarantee Security Life Insurance Company	08/12/91
International Financial Service Life Insurance Company	11/30/99
Kentucky Central Life Insurance Company	08/18/94 (affirmed 05/11/95)
Legion/Villanova Insurance Companies	04/01/02 – rehab
Life and Health Insurance Company of America	07/02/04
Lincoln Memorial Life Insurance Company	08/11/08
Midwest Life Insurance Company	08/26/91
National Heritage Life Insurance Company	11/21/95
Shelby Casualty Insurance Company	08/01/06
Standard Life Insurance Company of Indiana	12/18/08
States General Life Insurance Company	03/09/05 - rehab
Universal Life Insurance Company	February, 2006

MARKET CONDUCT ACTIVITIES

A review of market conduct activities is not within the scope of the examination performed and not applicable to the Association. The Association writes no policies.

REINSURANCE

A review of reinsurance activities as related to an insurance company is not within the scope of the examination performed and not applicable to the Association.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Association has no employees and as such offers no retirement plan or other employee benefits.

LOSS EXPERIENCE

A review of loss experience as derived from the annual statement of an insurance company is not within the scope of the examination performed and not applicable to the Association.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2004, 2005, 2006, 2007, and 2008. Accounting records conform to generally accepted accounting practices and appear to properly reflect the operations during the period under examination and the status of the Association at the date of examination.

The Association uses a customized software system, Sage/MAS90, modified to conform to Government Accounting Practices. This system has the capability of calculating assessments to member Companies; however, the Association contracts with Thornwaite and Company for the calculations. It is the policy of the Association to prepare its financial statement on the basis of cash receipts and disbursements without regard to any revenue or expense accruals which may exist at year end.

All original books and records are located at the office of the administrator. The physical address of the administrator is:

Tennessee Life and Health Insurance Guaranty Association
c/o Miller & Martin PLLC
1200 One Nashville Place
150 4th Avenue, South
Nashville, Tennessee 37219-2433

An audit of the Association is conducted annually by Faulkner, Mackie & Cochran, P.C., Nashville, Tennessee.

STATUTORY DEPOSITS

The Association is not required to make any statutory deposits; therefore this section is not applicable.

PECUNIARY INTEREST, TENN. CODE ANN. § 56-3-103

Members of the Board of Directors are not compensated by the Association for their services as board members, but may be reimbursed for expenses incurred by them as members of the Board, subject to approval by the Board. All members of the Board of Directors of the Association are requested to execute a Conflict of Interest Policy Statement annually.

LITIGATION

As of December 31, 2008, the Association had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of the Company.

FINANCIAL STATEMENT

There follows a comparative financial statement covering the years 2004 – 2008 as developed by this examination:

FUND BALANCE

	2004	2005	2006	2007	2008
ASSETS:					
Cash and cash equivalents	\$2,453,330	\$ 713,277	\$ 749,265	\$ 1,831,527	\$12,430,114
Investments	33,519,795	34,700,684	37,877,940	36,551,403	26,262,539
Interest in note receivable	<u>-</u>	<u>-</u>	<u>63,000</u>	<u>63,000</u>	<u>-</u>
Total Assets	35,973,125	35,413,961	38,690,918	38,445,930	38,692,653
LIABILITIES:	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTALS	<u>\$35,973,125</u>	<u>\$35,413,961</u>	<u>\$38,690,918</u>	<u>\$38,445,930</u>	<u>\$38,692,653</u>

SUMMARY OF OPERATIONS

	2004	2005	2006	2007	2008
RECEIPTS:					
Assessments	\$ 4,038,694	\$ 411,950	\$ 8,396	\$ -	\$ 399,413
Interest	493,210	760,332	1,023,061	1,451,768	2,152,858
Estate Settlements	1,222,706	532,866	3,068,118	330,752	1,967,677
Premiums/Other	-	-	47,638	-	137,598
Total Receipts	5,754,610	1,705,148	4,147,213	1,782,520	4,657,546
DISBURSEMENTS:					
Claims Paid	1,259,841	1,970,832	1,247,499	2,468,864	3,514,066
Class B assessment refunds	4,630,537	-	-	-	-
Return of prior estate settlements	-	-	-	106,353	-
Outside Services	274,384	309,696	185,818	78,491	85,626
Fees related to specific insolvencies	-	-	-	157,265	219,417
Dues	44,971	44,443	46,365	48,609	48,907
Other	17,323	13,808	17,979	15,776	20,732
Total Disbursements	<u>\$6,227,056</u>	<u>\$2,338,779</u>	<u>\$1,497,661</u>	<u>\$2,875,358</u>	<u>\$3,888,748</u>
Excess (deficiency) of receipts over disbursements	(472,446)	(633,631)	2,649,552	(1,092,838)	768,798
Fund balance at beginning of year	36,508,715	35,973,125	35,413,961	38,690,205	38,445,930
Change in unrealized depreciation of investments	(63,144)	74,467	626,692	848,563	(522,075)
Fund balance at year end	<u>\$35,973,125</u>	<u>\$35,413,961</u>	<u>\$38,690,205</u>	<u>\$38,445,930</u>	<u>\$38,692,653</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT
AND COMMENTS RESULTING FROM EXAMINATION**

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on the fund balance, either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

Although minor differences were noted during the course of this examination, none affected the operations of the Association or the fund balance at December 31, 2008.

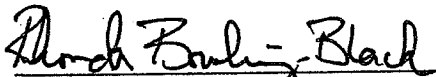
Based on the results of this examination, it appears that the Association is in compliance with the Tennessee Life and Health Guaranty Association Act (Tenn. Code Ann. § 56-12-201, et seq.)

CONCLUSION

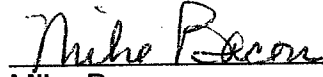
The customary examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of the Tennessee Life and Health Insurance Guaranty Association, Nashville, Tennessee.

In such manner, it was determined that, as of December 31, 2008, the Association had admitted assets of \$38,692,653 and that all of such funds were available for payment of claims and related expenses. The courteous cooperation extended by the Association during the course of the examination is hereby acknowledged.

Respectfully submitted,



Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC



Mike Bacon
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of the Tennessee Life and Health Insurance Guaranty Association dated April 29, 2011, and made as of December 31, 2008, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black
Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me

this 29th day of

April, 2011

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014

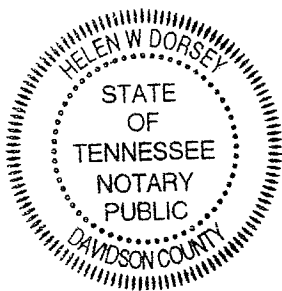


Exhibit 4

**TENNESSEE LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION
POLICY STATEMENT ON
CONFLICTS OF INTEREST AND BUSINESS ETHICS**

The Board of Directors of the Tennessee Life and Health Insurance Guaranty Association ("TLHIGA") wishes to reemphasize the organization's commitment to the highest possible ethical standards. Although much of what comprises these standards are matters of common sense, the Board wishes to underscore the organization's commitment to them by formalizing and supplementing current practices and procedures in this written Policy Statement. This Policy Statement includes the following rules which heretofore have been observed in practice, but not memorialized in a Policy Statement:

Rule 1

A member of the Board, the Administrator or a person retained by TLHIGA as a consultant may not accept any gift or favor, however nominal, which could reasonably be perceived as tending to influence any advice provided to, services rendered to or business decision made or to be made on behalf of TLHIGA by the recipient.

Rule 2

A Board member, the Administrator or a person retained by TLHIGA as a consultant may not utilize any nonpublic information acquired as a result of the performance of duties on behalf of TLHIGA to derive any monetary benefit, through securities trading or otherwise, directly or indirectly, either on behalf of the Board member or the representative of the Board member. All such nonpublic information, if material, shall be disseminated only on a "need to know" basis and under circumstances where the recipient of such information has committed to keep such information confidential and not use such information to derive any monetary benefit. Generally, material nonpublic information should be safeguarded even if TLHIGA has not been required to commit to a formal confidentiality agreement.

Rule 3

All Board members, the Administrator and all persons retained by TLHIGA as consultants shall immediately and fully disclose to the Board any interest in any matter which might reasonably represent a conflict of interest or the appearance of one within the context of the Board member's duties for TLHIGA.

Rule 4

A Board member, the Administrator or any person retained by TLHIGA as a consultant, who becomes aware of any violation or possible violation by someone else of any of these rules, shall immediately report the facts and circumstances in confidence to the Executive Committee of the Board of Directors.

GENERAL

For purposes of achieving uniformity in application, all questions of interpretation and other issues under this Policy Statement shall be decided by the TLHIGA Board of Directors. All decisions thereof shall be final. Each member of the Board of Directors shall be required to execute annually a statement affirming that no violations of the conflicts policy have occurred in the preceding year, and acknowledging understanding of the responsibility to abide by the Policy Statement. The arrangements with the Administrator and with retained consultants shall include an affirmative representation regarding adherence to the Policy Statement.

The Board reserves the right to amend or supplement this Policy Statement at any time.

Inquiries, concerns and other communications about this Policy Statement shall first be directed to the Chairman, who shall keep the Board appropriately informed.

CERTIFICATION

As a representative of a member of the Board of Directors of the Tennessee Life and Health Insurance Guaranty Association, the undersigned hereby states as follows:

- (1) I have read and understand the Policy Statement on Conflicts of Interest and Business Ethics of the Tennessee Life and Health Insurance Guaranty Association;
- (2) I acknowledge that I am responsible for abiding by the provisions of the Policy Statement;
- (3) I am unaware of any acts or omissions that would constitute a violation of the Policy Statement.

Date: _____

Signature

Print Name: _____